

Company No.

| | |
|--------|---|
| 284669 | W |
|--------|---|

AIRASIA BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

Company No.

| | |
|--------|---|
| 284669 | W |
|--------|---|

AIRASIA BERHAD
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

CONTENTS

| | Pages |
|---|--------------|
| Directors' report | 1 - 5 |
| Financial statements | |
| Income statements | 6 - 7 |
| Statements of comprehensive income | 8 |
| Balance sheets | 9 - 10 |
| Consolidated statement of changes in equity | 11 - 12 |
| Company statement of changes in equity | 13 - 14 |
| Cash flow statements | 15 - 17 |
| Notes to the financial statements | 18 - 112 |
| Supplementary Information | 113 |
| Statement by Directors | 114 |
| Statutory declaration | 114 |
| Independent auditors' report | 115 - 117 |

Company No.

284669

W

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their annual report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

| | <u>Group</u> RM'000 | <u>Company</u> RM'000 |
|-----------------------------------|------------------------|--------------------------|
| Net profit for the financial year | <u>362,124</u> | <u>184,980</u> |

DIVIDENDS

The dividends on ordinary shares paid by the Company since the end of the previous financial year were as follows:

| | RM'000 |
|---|----------------|
| In respect of the financial year ended 31 December 2012, | |
| - a single-tier interim 'special' dividend of 18 sen per ordinary share of RM0.10 each on 2,779,906,580 ordinary shares of RM0.10 each, paid on 12 April 2013 | 500,383 |
| - a final single-tier dividend of 6 sen per ordinary share of RM0.10 each on 2,780,510,580 ordinary shares of RM0.10 each, paid on 3 July 2013 | 166,831 |
| | <u>667,214</u> |

The Directors now recommend a first and final single-tier dividend in respect of the financial year ended 31 December 2013 of 4 sen per share on 2,781,062,580 ordinary shares of RM0.10 each amounting to RM111,242,503, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

RESERVES AND PROVISIONS

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

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

ISSUANCE OF SHARES

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM277,990,658 to RM278,106,258 by way of issuance of 1,156,000 ordinary shares of RM0.10 each pursuant to the exercise of the Company's Employee Share Option Scheme ("ESOS") at an exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM1,132,880 has been credited to the Share Premium account.

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

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

The Company implemented an ESOS on 1 September 2004. The ESOS is governed by the by-laws which were approved by the shareholders on 7 June 2004 and was effective for a period of 5 years from the date of approval. On 28 May 2009, the Company extended the duration of its ESOS which expired on 6 June 2009 by another 5 years to 6 June 2014. This was in accordance with the terms of the ESOS By-Laws. The ESOS extension was not subject to any regulatory or shareholders' approval.

Details of the ESOS are set out in Note 30 to the financial statements.

The Company has been granted an exemption by the Companies Commission of Malaysia, the information of which has been separately filed, from having to disclose the list of option holders and their holdings, except for eligible employees (inclusive of Executive Directors) with share options allocation of 320,000 and above. The employees who have been granted options of more than 320,000 shares are Tan Sri Dr. Anthony Francis Fernandes and Datuk Kamarudin Bin Meranun, details of which are disclosed in the section on Directors' Interests in Shares below.

DIRECTORS

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

| | |
|---|----------------------------|
| Datuk Kamarudin Bin Meranun | |
| Tan Sri Dr. Anthony Francis Fernandes | |
| Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar | |
| Dato' Fam Lee Ee | |
| Dato' Mohamed Khadar Bin Merican | |
| Datuk Mohd Omar Bin Mustapha | |
| Aireen Omar | |
| Robert Aaron Milton | (Appointed on 7 June 2013) |
| Conor Mc Carthy | (Retired on 4 June 2013) |
| Dato' Leong Sonny @ Leong Khee Seong | (Retired on 4 June 2013) |

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

During and at the end of the financial year ended 31 December 2013, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration as disclosed in Note 5 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 36 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

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

| | Number of ordinary shares of RM0.10 each | | | |
|---|--|-----------|-------------|------------------|
| | At 1.1.2013/ date of appointment | Acquired | (Disposed) | At 31.12.2013 |
| <u>Direct interests in the Company</u> | | | | |
| Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar | 200,000 | 50,000 | (100,000) | 150,000** |
| Tan Sri Dr. Anthony Francis Fernandes | 3,227,010 | 1,000,000 | (2,627,010) | 1,600,000 |
| Datuk Kamarudin Bin Meranun | 2,292,900 | 2,000,000 | (2,292,900) | 2,000,000 |
| Dato' Fam Lee Ee | 50,000 | - | - | 50,000 |
| Robert Aaron Milton | - | 100,000 | - | 100,000*** |
| <u>Indirect interests</u> | | | | |
| Tan Sri Dr. Anthony Francis Fernandes * | 640,608,382 | - | - | 640,608,382 |
| Datuk Kamarudin Bin Meranun * | 640,608,382 | - | - | 640,608,382 |

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

** Shares held under Cimseo Nominees (Tempatan) Sdn Bhd

*** Shares held under HDM Nominees (Asing) Sdn Bhd.

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

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements of the Group and the Company were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

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

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

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

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

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

In the opinion of the Directors:

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

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 28 April 2014.



DATUK KAMARUDIN BIN MERANUN
DIRECTOR



AIREEN OMAR
DIRECTOR

AIRASIA BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

| | Note | Group | | Company | |
|---|------|----------------|------------------------------|----------------|----------------|
| | | 2013 RM'000 | 2012 RM'000 (restated) | 2013 RM'000 | 2012 RM'000 |
| Revenue | 4 | 5,111,822 | 4,946,091 | 5,111,822 | 4,946,091 |
| Operating expenses | | | | | |
| - Staff costs | 5 | (610,905) | (580,294) | (606,765) | (580,207) |
| - Depreciation of property, plant and equipment | 12 | (597,258) | (567,176) | (596,827) | (567,176) |
| - Aircraft fuel expenses | | (2,212,198) | (1,947,947) | (2,212,198) | (1,947,947) |
| - Maintenance and overhaul | | (138,622) | (112,398) | (138,622) | (112,398) |
| - User charges and other related expenses | | (490,009) | (415,898) | (490,009) | (415,894) |
| - Aircraft operating lease expenses | | (189,354) | (159,512) | (189,354) | (159,512) |
| - Other operating expenses | 6 | (191,831) | (269,225) | (196,596) | (268,401) |
| Other gains/(losses) – net | 7 | 92,689 | 11,035 | 92,689 | 11,035 |
| Other income | 8 | 181,279 | 123,942 | 137,813 | 113,510 |
| Share of results of joint ventures | 14 | 13,599 | (2,899) | - | - |
| Share of results of associates | | | | | |
| - Existing associates | 15 | 82,895 | 48,495 | - | - |
| - Disposed associate | 15 | (41,032) | (47,166) | - | - |
| | | 41,863 | 1,329 | - | - |
| Operating profit | | 1,010,875 | 1,027,048 | 911,953 | 1,019,101 |
| Finance income | 9 | 64,208 | 79,391 | 64,192 | 79,237 |
| Finance costs | 9 | (428,406) | (378,808) | (428,347) | (378,785) |
| Net operating profit | | 646,677 | 727,631 | 547,798 | 719,553 |
| Foreign exchange (losses)/gains on borrowings | 9 | (397,795) | 145,425 | (397,795) | 145,393 |
| Foreign exchange gains/(losses) on amounts due from associates and joint ventures | | 34,088 | (29,139) | 34,088 | (29,139) |
| Gain on disposal of interest in AirAsia Japan Co Ltd | 15 | 78,265 | - | - | - |
| Gain on disposal of Interest in Thai AirAsia Co Ltd | 40 | - | 118,640 | - | - |
| Profit before taxation | | 361,235 | 962,557 | 184,091 | 835,807 |
| Taxation | | | | | |
| - Current taxation | 10 | (18,910) | (18,245) | (18,910) | (18,194) |
| - Deferred taxation | 10 | 19,799 | (154,704) | 19,799 | (154,755) |
| | | 889 | (172,949) | 889 | (172,949) |
| Net profit for the financial year | | 362,124 | 789,608 | 184,980 | 662,858 |

Company No.

| | |
|--------|---|
| 284669 | W |
|--------|---|

AIRASIA BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

| | <u>Note</u> | <u>2013</u> RM'000 | <u>Group</u> <u>2012</u> RM'000 (restated) | <u>2013</u> RM'000 | <u>Company</u> <u>2012</u> RM'000 |
|--|-------------|-----------------------|---|-----------------------|---|
| Net profit for the financial year attributable to: | | | | | |
| - Equity holders of the Company | | 362,124 | 789,608 | | |
| - Non-controlling interests | | - | - | | |
| | | <u>362,124</u> | <u>789,608</u> | | |
| Earnings per share (sen) | | | | | |
| - Basic | 11 | 13.0 | 28.4 | | |
| - Diluted | 11 | <u>13.0</u> | <u>28.4</u> | | |

AIRASIA BERHAD
(Incorporated in Malaysia)

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

| | Note | Group | | Company | |
|---|------|----------------|------------------------------|----------------|----------------|
| | | 2013 RM'000 | 2012 RM'000 (restated) | 2013 RM'000 | 2012 RM'000 |
| Profit for the financial year | | 362,124 | 789,608 | 184,980 | 662,858 |
| Other comprehensive income/ (loss) | | | | | |
| Items that may be subsequently reclassified to profit or loss | | | | | |
| - Available-for-sale financial assets | 16 | 265,788 | 110,284 | 265,788 | 110,284 |
| - Cash flow hedges | | 178,213 | 61,215 | 178,213 | 61,215 |
| - Foreign currency translation differences | | 404 | (145) | - | - |
| Other comprehensive income for the financial year, net of tax | | 444,405 | 171,354 | 444,001 | 171,499 |
| Total comprehensive income for the financial year | | 806,529 | 960,962 | 628,981 | 834,357 |
| Total comprehensive income attributable to: | | | | | |
| - Equity holders of the Company | | 806,529 | 960,962 | - | - |
| - Non-controlling interests | | - | - | - | - |
| | | 806,529 | 960,962 | - | - |

AIRASIA BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2013

| | Note | Group | | | Company | | |
|-------------------------------------|------|----------------------|------------------------------------|----------------------------------|----------------------|------------------------------------|----------------------------------|
| | | 31.12.2013 RM'000 | 31.12.2012 RM'000 (restated) | 1.1.2012 RM'000 (restated) | 31.12.2013 RM'000 | 31.12.2012 RM'000 (restated) | 1.1.2012 RM'000 (restated) |
| NON-CURRENT ASSETS | | | | | | | |
| Property, plant and equipment | 12 | 11,282,828 | 9,786,030 | 8,586,451 | 11,288,171 | 9,786,030 | 8,586,146 |
| Investment in subsidiaries | 13 | - | - | - | 23,480 | 23,480 | 23,480 |
| Investment in joint ventures | 14 | 134,354 | 120,755 | 123,654 | 81,559 | 81,559 | 81,559 |
| Investment in associates | 15 | 260,483 | 162,845 | 39,079 | 29 | 29 | 29 |
| Available-for-sale financial assets | 16 | 571,895 | 308,792 | 152,942 | 581,770 | 285,982 | 152,942 |
| Goodwill | 17 | 7,334 | 7,334 | 7,334 | - | - | - |
| Deferred tax assets | 18 | 381,195 | 361,396 | 516,100 | 381,195 | 361,396 | 516,151 |
| Receivables and prepayments | 19 | 847,573 | 613,415 | 376,051 | 847,573 | 613,415 | 376,051 |
| Deposits on aircraft purchase | 20 | 642,394 | 483,795 | 367,768 | 642,394 | 483,795 | 367,768 |
| Amounts due from associates | 21 | 559,190 | 449,578 | 513,614 | 478,564 | 449,578 | 513,614 |
| Derivative financial instruments | 22 | 235,665 | 37,673 | 44,811 | 235,665 | 37,673 | 44,811 |
| | | <u>14,932,909</u> | <u>12,331,613</u> | <u>10,727,804</u> | <u>14,540,400</u> | <u>12,132,937</u> | <u>10,662,551</u> |
| CURRENT ASSETS | | | | | | | |
| Inventories | 23 | 29,520 | 23,725 | 19,730 | 29,520 | 23,725 | 19,730 |
| Receivables and prepayments | 19 | 731,506 | 771,820 | 749,272 | 697,236 | 738,340 | 720,622 |
| Derivative financial instruments | 22 | 3,173 | - | 7,659 | 3,173 | - | 7,659 |
| Amounts due from subsidiaries | 24 | - | - | - | 191,120 | 174,730 | 105,409 |
| Amounts due from joint ventures | 25 | 33,703 | 10,765 | 4,526 | 11,431 | 3,066 | 4,526 |
| Amounts due from associates | 21 | 738,735 | 356,874 | 289,492 | 689,372 | 391,407 | 289,492 |
| Amounts due from related parties | 24 | 6,113 | 1,282 | - | 6,113 | 1,282 | - |
| Deposits, cash and bank balances | 26 | 1,380,435 | 2,232,731 | 2,105,010 | 1,306,926 | 2,166,999 | 2,079,712 |
| Current tax recoverable | | - | - | 2,216 | - | - | 1,942 |
| | | <u>2,823,185</u> | <u>3,397,197</u> | <u>3,177,905</u> | <u>2,934,891</u> | <u>3,439,549</u> | <u>3,229,092</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2013 (CONTINUED)

| | Note | Group | | | Company | | |
|----------------------------------|------|----------------------|------------------------------------|----------------------------------|----------------------|------------------------------------|----------------------------------|
| | | 31.12.2013 RM'000 | 31.12.2012 RM'000 (restated) | 1.1.2012 RM'000 (restated) | 31.12.2013 RM'000 | 31.12.2012 RM'000 (restated) | 1.1.2012 RM'000 (restated) |
| LESS: CURRENT LIABILITIES | | | | | | | |
| Trade and other payables | 27 | 744,938 | 666,148 | 727,604 | 660,309 | 638,007 | 683,435 |
| Sales in advance | | 661,590 | 546,150 | 389,833 | 661,590 | 533,201 | 376,828 |
| Amount due to a subsidiary | 28 | - | - | - | 10,185 | - | 5,606 |
| Amount due to a joint venture | 25 | - | - | 19,761 | 151 | - | 60,087 |
| Amount due to an associate | 21 | 487 | - | 4,444 | 467 | 13,553 | 4,444 |
| Amount due to a related party | 28 | 15,145 | 12,639 | 10,560 | 15,145 | 12,639 | 10,560 |
| Borrowings | 29 | 1,119,436 | 1,126,154 | 594,231 | 1,119,436 | 1,126,154 | 594,231 |
| Derivative financial instruments | 22 | 29,545 | 35,419 | 36,011 | 29,545 | 35,419 | 36,011 |
| Current tax liabilities | | 1,074 | 5,122 | - | 1,400 | 5,563 | - |
| | | <u>2,572,256</u> | <u>2,391,832</u> | <u>1,764,444</u> | <u>2,498,228</u> | <u>2,364,536</u> | <u>1,773,001</u> |
| NET CURRENT ASSETS | | <u>350,930</u> | <u>1,005,565</u> | <u>1,393,461</u> | <u>436,663</u> | <u>1,075,013</u> | <u>1,456,091</u> |
| NON-CURRENT LIABILITIES | | | | | | | |
| Other payables and accruals | 27 | 918,864 | 628,917 | 409,628 | 918,864 | 628,917 | 409,628 |
| Amount due to an associate | 21 | 60,859 | 54,499 | - | 60,859 | 54,499 | - |
| Borrowings | 29 | 9,051,416 | 7,283,185 | 7,186,919 | 9,051,416 | 7,283,185 | 7,186,919 |
| Derivative financial instruments | 22 | 251,768 | 510,208 | 488,321 | 251,768 | 510,208 | 488,321 |
| | | <u>10,282,907</u> | <u>8,476,809</u> | <u>8,084,868</u> | <u>10,282,907</u> | <u>8,476,809</u> | <u>8,084,868</u> |
| | | <u>5,000,932</u> | <u>4,860,369</u> | <u>4,036,397</u> | <u>4,694,156</u> | <u>4,731,141</u> | <u>4,033,774</u> |
| CAPITAL AND RESERVES | | | | | | | |
| Share capital | 30 | 278,106 | 277,991 | 277,809 | 278,106 | 277,991 | 277,809 |
| Share premium | | 1,229,068 | 1,227,935 | 1,226,150 | 1,229,068 | 1,227,935 | 1,226,150 |
| Foreign exchange reserve | | 855 | 451 | 596 | - | - | - |
| Retained earnings | 31 | 2,826,491 | 3,291,581 | 2,580,930 | 2,620,670 | 3,102,804 | 2,578,903 |
| Other reserves | | 566,412 | 122,411 | (49,088) | 566,412 | 122,411 | (49,088) |
| Shareholders' equity | | <u>5,000,932</u> | <u>4,860,369</u> | <u>4,036,397</u> | <u>4,694,156</u> | <u>4,731,141</u> | <u>4,033,774</u> |

AIRASIA BERHAD

(Incorporated in Malaysia)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

| Note | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|----------------------|----------------------|---------------------------------|--------------------------------|-----------------------------------|--------------------------|--------------|----------------------------------|---------------------|
| | Number of shares '000 | Nominal value RM'000 | Share premium RM'000 | Foreign exchange reserve RM'000 | Cash flow hedge reserve RM'000 | Available-for-sale reserve RM'000 | Retained earnings RM'000 | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| At 1 January 2013 | | | | | | | | | | |
| - as previously reported | 2,779,908 | 277,991 | 1,227,935 | 451 | (98,148) | 220,559 | 4,273,311 | 5,902,099 | - | 5,902,099 |
| - effects of adoption of MFRS 128 | 40 | - | - | - | - | - | (1,041,730) | (1,041,730) | - | (1,041,730) |
| - as restated | 2,779,908 | 277,991 | 1,227,935 | 451 | (98,148) | 220,559 | 3,231,581 | 4,860,369 | - | 4,860,369 |
| Net profit for the financial year | - | - | - | - | - | - | 362,124 | 362,124 | - | 362,124 |
| Other comprehensive income | - | - | - | 404 | 178,213 | 265,788 | - | 444,405 | - | 444,405 |
| Total comprehensive income | - | - | - | 404 | 178,213 | 265,788 | 362,124 | 806,529 | - | 806,529 |
| Dividends | 32 | - | - | - | - | - | (667,214) | (667,214) | - | (667,214) |
| Issuance of ordinary shares pursuant to the Employee Share Option Scheme ("ESOS") | 30 | 1,156 | 115 | 1,133 | - | - | - | 1,248 | - | 1,248 |
| At 31 December 2013 | 2,781,064 | 278,106 | 1,229,068 | 855 | 80,065 | 486,347 | 2,926,491 | 5,000,932 | - | 5,000,932 |

AIRASIA BERHAD
(Incorporated in Malaysia)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

| | Attributable to equity holders of the Company | | | | | | | | | | |
|--|--|-----------|-----------------------------|----------------------------|----------------------------|--|---|---|--------------------------------|-----------------|--|
| | Issued and fully paid ordinary shares of RM0.10 each | | Number of shares '000 | Nominal value RM'000 | Share premium RM'000 | Foreign exchange reserve RM'000 | Cash flow hedge reserve RM'000 | Available- for-sale reserve RM'000 | Retained earnings RM'000 | Total RM'000 | Non- controlling interests RM'000 |
| At 1 January 2012 | | 2,778,087 | | | | | | | | | |
| Net profit for the financial year | | - | - | - | - | - | - | 1,831,338 | 1,831,338 | - | 1,831,338 |
| Effects of adoption of MFRS128 | 40 | - | - | - | - | - | - | (1,041,730) | (1,041,730) | - | (1,041,730) |
| Net profit for the financial year (restated) | | - | - | - | - | - | - | 789,608 | 789,608 | - | 789,608 |
| Other comprehensive (loss)/income | | - | - | - | (145) | 61,215 | 110,284 | - | 171,354 | - | 171,354 |
| Total comprehensive (loss)/ income (restated) | | - | - | - | (145) | 61,215 | 110,284 | 789,608 | 960,962 | - | 960,962 |
| Dividend | 32 | - | - | - | - | - | - | (138,957) | (138,957) | - | (138,957) |
| Issuance of ordinary shares - pursuant to the Employee Share Option Scheme ('ESOS') | 30 | 1,821 | 182 | 1,785 | - | - | - | - | 1,967 | - | 1,967 |
| At 31 December 2012 (restated) | | 2,779,908 | 277,991 | 1,227,935 | 451 | (98,148) | 220,559 | 3,231,581 | 4,860,369 | - | 4,860,369 |

Company No.

284669 W

AIRASIA BERHAD
(Incorporated in Malaysia)

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

| | Note | Number of shares '000 | Issued and fully paid ordinary shares of RM0.10 each | Nominal value RM'000 | Cash flow | | | Non-distributable | | Distributable | | Total RM'000 |
|--|------|-----------------------|--|----------------------|----------------|----------------------|-----------------------------------|----------------------|--------------------------|---------------|-----------|--------------|
| | | | | | reserve RM'000 | hedgø reserve RM'000 | Available-for-sale reserve RM'000 | Share premium RM'000 | Retained earnings RM'000 | Total RM'000 | | |
| At 1 January 2013 | | 2,779,908 | | 277,991 | (98,148) | | 220,559 | 1,227,935 | 3,102,804 | | 4,731,141 | |
| Net profit for the financial year | | - | - | - | - | - | - | - | 184,980 | | 184,980 | |
| Other comprehensive income | | - | - | - | 178,213 | | 265,788 | - | - | | 444,001 | |
| Total comprehensive income | | - | - | - | 178,213 | | 265,788 | - | 184,980 | | 628,981 | |
| Dividends | 32 | - | - | - | - | - | - | - | (667,214) | | (667,214) | |
| Issuance of shares - pursuant to the Employee Share Option Scheme ('ESOS') | 30 | 1,156 | | 115 | - | - | - | 1,133 | - | | 1,248 | |
| At 31 December 2013 | | 2,781,064 | | 278,106 | 80,065 | | 486,347 | 1,229,068 | 2,620,570 | | 4,694,156 | |

Company No.

284669 W

AIRASIA BERHAD

(Incorporated in Malaysia)

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

| | Note | Issued and fully paid ordinary shares of RM0.10 each | | Cash flow hedge reserve RM'000 | Available- for-sale reserve RM'000 | Non-distributable | | Distributable | |
|---|------|--|----------------------------|---|---|----------------------------|--------------------------------|-----------------|--|
| | | Number of shares '000 | Nominal value RM'000 | | | Share premium RM'000 | Retained earnings RM'000 | Total RM'000 | |
| At 1 January 2012 | | 2,778,087 | 277,809 | (159,363) | 110,275 | 1,226,150 | 2,578,903 | 4,033,774 | |
| Net profit for the financial year | | - | - | - | - | - | 662,858 | 662,858 | |
| Other comprehensive income | | - | - | 61,215 | 110,284 | - | - | 171,499 | |
| Total comprehensive income | | - | - | 61,215 | 110,284 | - | 662,858 | 834,357 | |
| Dividend | 32 | - | - | - | - | - | (138,957) | (138,957) | |
| Issuance of shares - pursuant to the Employee Share Option Scheme (‘ESOS’) | 30 | 1,821 | 182 | - | - | 1,785 | - | 1,967 | |
| At 31 December 2012 | | 2,779,908 | 277,991 | (98,148) | 220,559 | 1,227,935 | 3,102,804 | 4,731,141 | |

| | |
|-------------|---|
| Company No. | |
| 284669 | W |

AIRASIA BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

| | 2013 RM'000 | Group 2012 RM'000 (restated) | 2013 RM'000 | Company 2012 RM'000 |
|--|------------------|---------------------------------------|------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Profit before taxation | 361,235 | 962,557 | 184,091 | 835,807 |
| Adjustments: | | | | |
| Property, plant and equipment | | | | |
| - Depreciation | 597,258 | 567,176 | 596,827 | 567,176 |
| - Gain on disposals | (3,036) | (9,328) | (3,036) | (9,328) |
| Gain on disposal of interest in AirAsia Japan Co Ltd | (78,265) | - | - | - |
| Gain on disposal of interest in Thai AirAsia Co Ltd | - | (118,640) | - | - |
| Impairment on available-for-sale financial asset | 2,685 | - | - | - |
| Impairment of trade and other receivables | 18,864 | - | 16,382 | - |
| Impairment of amount due from a subsidiary | - | - | 5,306 | - |
| Fair value (gain)/loss on derivative financial instruments | (287,266) | 95,308 | (287,266) | 95,308 |
| Share of results of joint ventures | (13,599) | 2,899 | - | - |
| Share of results of associates | (41,663) | (1,329) | - | - |
| Net unrealised foreign exchange loss/(gain) | 517,669 | (205,524) | 517,669 | (205,492) |
| Interest expense | 428,406 | 378,808 | 428,347 | 378,785 |
| Interest income | (64,208) | (79,391) | (64,192) | (79,237) |
| | <u>1,438,080</u> | <u>1,592,536</u> | <u>1,394,128</u> | <u>1,583,019</u> |
| Changes in working capital: | | | | |
| Inventories | (5,795) | (3,995) | (5,795) | (3,995) |
| Receivables and prepayments | (197,217) | (268,116) | (193,945) | (263,141) |
| Trade and other payables | 464,809 | 315,856 | 420,750 | 316,254 |
| Related party balances | (369,431) | (2,142) | (355,875) | (55,071) |
| Cash generated from operations | <u>1,330,446</u> | <u>1,634,139</u> | <u>1,259,263</u> | <u>1,577,066</u> |
| Interest paid | (411,117) | (378,808) | (411,117) | (378,485) |
| Interest received | 64,208 | 79,391 | 64,192 | 79,237 |
| Tax paid | (22,399) | (10,856) | (22,399) | (10,689) |
| Net cash from operating activities | <u>961,138</u> | <u>1,323,866</u> | <u>889,939</u> | <u>1,267,129</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

| | Note | Group 2013 RM'000 | Group 2012 RM'000 (restated) | 2013 RM'000 | Company 2012 RM'000 |
|---|------|-------------------------|---------------------------------------|--------------------|---------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Property, plant and equipment | | | | | |
| - Additions | | (2,117,455) | (1,772,597) | (2,112,369) | (1,772,597) |
| - Proceeds from disposals | | 16,437 | 15,170 | 16,437 | 14,865 |
| Loan repayment received from associates | | 30,649 | 31,090 | 30,649 | 31,090 |
| Proceeds from disposal of associate | | 78,265 | - | - | - |
| Investment in associates | | (55,975) | (16,608) | - | - |
| Loans granted to associate | | (145,514) | - | (64,888) | - |
| Deposits on aircraft purchase | | (152,483) | (128,740) | (152,483) | (128,740) |
| Purchases of available-for-sale financial assets | | - | (32,756) | - | (32,756) |
| Placement of restricted cash | | (171,529) | - | (171,529) | - |
| | | <u>(2,517,605)</u> | <u>(1,904,441)</u> | <u>(2,454,183)</u> | <u>(1,888,138)</u> |
| Net cash used in investing activities | | | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from allotment of shares | | 1,248 | 1,967 | 1,248 | 1,967 |
| Proceeds from borrowings | | 2,424,972 | 1,533,298 | 2,424,972 | 1,533,298 |
| Repayment of borrowings | | (1,250,227) | (662,376) | (1,250,227) | (662,376) |
| Dividends paid | | (667,214) | (138,957) | (667,214) | (138,957) |
| Deposits pledged as securities | | (928) | (1,094) | (928) | (1,094) |
| | | <u>507,851</u> | <u>732,838</u> | <u>507,851</u> | <u>732,838</u> |
| Net cash from financing activities | | | | | |
| NET (DECREASE)/INCREASE FOR THE FINANCIAL YEAR | | (1,048,616) | 152,263 | (1,056,393) | 111,829 |
| CURRENCY TRANSLATION DIFFERENCES | | | | | |
| | | 23,863 | (25,636) | 23,863 | (25,636) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR | | | | | |
| | | <u>2,219,243</u> | <u>2,092,616</u> | <u>2,153,511</u> | <u>2,067,318</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR | | | | | |
| | 26 | <u>1,194,490</u> | <u>2,219,243</u> | <u>1,120,981</u> | <u>2,153,511</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

SIGNIFICANT NON-CASH TRANSACTIONS

| | <u>Note</u> | <u>2013</u> <u>RM'000</u> | <u>Group</u> <u>2012</u> <u>RM'000</u> | <u>2013</u> <u>RM'000</u> | <u>Company</u> <u>2012</u> <u>RM'000</u> |
|--|-------------|------------------------------|--|------------------------------|--|
| Total purchase of property, plant and equipment during the financial year | 12 | (2,117,455) | (1,896,197) | (2,112,369) | (1,896,197) |
| Settlement by lessors on behalf of the Company for purchase of aircraft | | - | 123,600 | - | 123,600 |
| Net cash used in purchase of property, plant and equipment | | <u>(2,117,455)</u> | <u>(1,772,597)</u> | <u>(2,112,369)</u> | <u>(1,772,597)</u> |
| Net book value of property, plant and equipment disposed during the financial year | 12 | 13,401 | 129,442 | 13,401 | 129,137 |
| Gain on disposal of property, plant and equipment | | 3,036 | 9,328 | 3,036 | 9,328 |
| Total proceeds from disposal of property, plant and equipment | | 16,437 | 138,770 | 16,437 | 138,465 |
| Settlement by lessors on behalf of the Company for purchase of aircraft | | - | (123,600) | - | (123,600) |
| Net cash proceeds received from disposal of property, plant and equipment | | <u>16,437</u> | <u>15,170</u> | <u>16,437</u> | <u>14,865</u> |

Company No.

| | |
|--------|---|
| 284669 | W |
|--------|---|

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

1 GENERAL INFORMATION

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

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

B-13-15, Level 13,
Menara Prima Tower B,
Jalan PJU1/39, Dataran Prima
47301 Petaling Jaya
Selangor Darul Ehsan

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

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

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 April 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements:

(a) Basis of preparation

The financial statements of the Group and Company have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Group and Company's financial year beginning on or after 1 January 2013 are as follows:

- MFRS 10, 'Consolidated Financial Statements'
- MFRS 11 'Joint Arrangements'
- MFRS 12 'Disclosures of Interests in Other Entities'
- MFRS 13 'Fair Value Measurement'
- The revised MFRS 127 'Separate Financial Statements'
- The revised MFRS 128 'Investments in Associates and Joint Ventures'
- Amendments to MFRS 101 'Presentation of Items of Other Comprehensive Income'
- Amendment to MFRS 119 'Employee Benefits'
- Amendment to MFRS 7 'Financial Instruments: Disclosures'
- Amendments to MFRS 10, 11 & 12 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance'
- Annual Improvements 2009 – 2011 Cycle

Standards early adopted by the Group and Company

The amendments to MFRS 136 'Impairment of assets' removed certain disclosures of the recoverable amount of cash generating units ("CGUs") which had been included in MFRS 136 by the issuance of MFRS 13. The amendment is not mandatory for the Group and Company until 1 January 2014, however the Group and Company has decided to early adopt the amendment as of 1 January 2013.

(c) Standards, amendments to published standards and Interpretations to existing standards that are applicable to the Group but not yet effective

The Group will apply the new standards, amendments to standards and interpretations in the following period:

(i) Effective for financial year beginning on or after 1 January 2014

- Amendment to MFRS 132 'Financial Instruments: Presentation' (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.
- Amendments to MFRS 10, MFRS 12 and MFRS 127 (effective from 1 January 2014) introduce an exception to consolidation for investment entities. Investment entities are entities whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both and evaluate the performance of its investments on fair value basis. The amendments require investment entities to measure particular subsidiaries at fair value instead of consolidating them.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group but not yet effective (continued)

(ii) Effective date yet to be determined by Malaysian Accounting Standards Board

- MFRS 9 'Financial Instruments – Classification and Measurement of Financial Assets and Financial Liabilities' replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group has yet to assess MFRS 9's full impact. The Group will also consider the impact of the remaining phases of MFRS 9 when completed by the Board.

(d) Basis of consolidation

(i) Subsidiaries

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

AIRASIA BERHAD
(Incorporated In Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

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

(ii) Joint arrangements

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

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

AIRASIA BERHAD
(Incorporated In Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Basis of consolidation (continued)

(ii) Joint arrangements (continued)

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

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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

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

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

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ('CGUs'), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs also include borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2(s) on borrowing costs).

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

Significant parts of an item of property, plant and property are depreciated separately over their estimated useful lives in accordance with the principle in MFRS 116 "Property, Plant and Equipment". Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (continued)

The useful lives for this purpose are as follows:

| | |
|--|---|
| Aircraft | |
| - engines and airframe excluding service potential | 25 years |
| - service potential of engines and airframe | 8 or 13 years |
| Aircraft spares | 10 years |
| Aircraft fixtures and fittings | Useful life of aircraft or remaining lease term of aircraft, whichever is shorter |
| Buildings | |
| - simulator | 28.75 years |
| - hangar | 50 years |
| Motor vehicles | |
| Office equipment, furniture and fittings | 5 years |
| Office renovation | 5 years |
| Simulator equipment | 25 years |
| Operating plant and ground equipment | 5 years |
| In-flight equipment | 5 years |
| Training equipment | 5 years |

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

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

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

Residual values, where applicable, are reviewed annually against prevailing market rates at the balance sheet date for equivalent aged assets and depreciation rates are adjusted accordingly on a prospective basis. For the current financial year ended 31 December 2013, the estimated residual value for aircraft airframes and engines is 10% of their cost (2012: 10% of their cost).

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (continued)

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

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

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

(g) Investments in subsidiaries, joint ventures and associates

In the Company's separate financial statements, investments in subsidiaries, joint ventures and associates are stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount (see Note 2(h)). On disposal of investments in subsidiaries, joint ventures and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

(h) Impairment of non-financial assets

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

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

(i) Maintenance and overhaul

Owned aircraft

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

AIRASIA BERHAD
(Incorporated In Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) **Maintenance and overhaul (continued)**

Leased aircraft

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

(j) **Leases**

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

Lessee

Finance leases

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

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

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

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

Operating leases

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leases (continued)

Lessor

Operating leases

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

(k) Inventories

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

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

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

(l) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges (see Note 2(n)). Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'amounts due from associates, joint ventures and related companies' and 'deposits, cash and bank balances' in the balance sheets.

AIRASIA BERHAD
(Incorporated In Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial assets (continued)

(i) Classification (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(ii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

(iii) Subsequent measurement – gains and losses

Available-for-sale financial assets and financial assets through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (see accounting policy Note 2(l)(iv)) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in the income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividends income on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (continued)

(iv) Subsequent measurement – Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial assets (continued)

(iv) Subsequent measurement – Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Assets classified as available-for-sale

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group uses criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

(v) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to the income statements.

(m) Offsetting financial instruments

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

(n) Derivative financial instruments and hedging activities

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) **Derivative financial instruments and hedging activities (continued)**

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2(l). The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 22 to the financial statements. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

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

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

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(p) Cash and cash equivalents

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

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

(r) Share capital

(i) Classification

Ordinary shares with discretionary dividends are classified as equity.

(ii) Share issue costs

Incremental external costs directly attributable to the issuance of new shares or options are deducted against share premium account.

(iii) Dividends distribution

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

(s) Borrowings and borrowing costs

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Borrowings and borrowing costs (continued)

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

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

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

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

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

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income.

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

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Current and deferred income tax (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

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

(u) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plan

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

(v) Revenue recognition

Scheduled passenger flight and chartered flight income are recognised upon the rendering of transportation services and where applicable, are stated net of discounts. The value of seats sold for which services have not been rendered is included in current liabilities as sales in advance. Revenue from aircraft rentals is recorded on a straight-line basis over the term of the lease.

Other revenue which includes fuel surcharge, insurance surcharge, administrative fees, excess baggage and baggage handling fees, are recognised upon the completion of services rendered and where applicable, are stated net of discounts. Freight and other related revenue are recognised upon the completion of services rendered and where applicable, are stated net of discounts. Income from the provision of tour operations (both inbound and outbound) and travel agency services is recognised upon services being rendered and where applicable, are stated net of discounts.

Rental income is recognised on an accrual basis.

Brand license fee is recognised on an accrual basis in accordance with the substance of the agreement.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Revenue recognition (continued)

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

The Group participates in a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. Award points are recognised as a cost of sale at the time of issue while revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed and the redemption value of each point. Award points expire 36 months after the initial sale.

(w) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses arising from operations are included in arriving at the operating profit. Foreign exchange gains and losses arising from borrowings (after effects of effective hedges) and amounts due from associates and joint ventures are separately disclosed after net operating profit.

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Foreign currencies (continued)

(iii) Group companies

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

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

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

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

(x) Trade payables

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

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

AIRASIA BERHAD
(Incorporated In Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Contingent liabilities

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

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

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

(z) Segment reporting

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(I) Estimated useful lives and residual values of aircraft frames and engines

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

Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives and residual values of aircraft airframes and engines as disclosed in Note 2(f), would increase the recorded depreciation charge and decrease the carrying amount of property, plant and equipment.

(II) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on past performance and adjusted for non-recurring circumstances and a reasonable growth rate. However, even where the actual taxable profits in the future are 5 percent lower than the anticipated taxable profits, the deferred tax assets can still be fully utilised.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

4 REVENUE

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Passenger seat sales | 3,004,429 | 3,255,612 | 3,004,429 | 3,255,612 |
| Baggage fees | 442,677 | 392,142 | 442,677 | 392,142 |
| Aircraft operating lease income | 666,247 | 534,873 | 666,247 | 534,873 |
| Surcharges and fees | 587,972 | 378,685 | 587,972 | 378,685 |
| Other revenue | 410,497 | 384,779 | 410,497 | 384,779 |
| | <u>5,111,822</u> | <u>4,946,091</u> | <u>5,111,822</u> | <u>4,946,091</u> |

Other revenue includes assigned seat, freight, cancellation, documentation and other fees, and the on-board sale of meals and merchandise.

5 STAFF COSTS

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Wages, salaries, bonus and allowances | 554,085 | 521,806 | 550,074 | 521,719 |
| Defined contribution retirement plan | 56,820 | 58,488 | 56,691 | 58,488 |
| | <u>610,905</u> | <u>580,294</u> | <u>606,765</u> | <u>580,207</u> |

Included in staff costs is Executive Directors' remuneration which is analysed as follows:

| | <u>Group and Company</u> | |
|--|--------------------------|---------------|
| | <u>2013</u> | <u>2012</u> |
| | RM'000 | RM'000 |
| <u>Executive Directors</u> | | |
| - basic salaries, bonus and allowances | 6,925 | 13,104 |
| - defined contribution plan | 831 | 1,404 |
| <u>Non-executive Directors</u> | | |
| - fees | 1,659 | 1,706 |
| | <u>9,415</u> | <u>16,214</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

5 STAFF COSTS (CONTINUED)

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

| | <u>Executive</u> | | <u>Non-executive</u> | |
|------------------------------|------------------|-------------|----------------------|-------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| <u>Range of remuneration</u> | | | | |
| Below RM150,000 | - | - | 5 | - |
| RM150,001 to RM200,000 | - | - | 1 | 1 |
| RM200,001 to RM250,000 | - | - | 1 | 1 |
| RM250,001 to RM300,000 | - | - | 1 | 3 |
| RM300,001 to RM350,000 | - | - | 1 | 1 |
| RM1,000,001 to RM2,000,000 | 1 | 1 | - | - |
| RM2,000,001 to RM3,000,000 | 1 | - | - | - |
| RM3,000,001 to RM4,000,000 | 1 | - | - | - |
| RM4,000,001 to RM5,000,000 | - | - | - | - |
| RM5,000,001 to RM6,000,000 | - | 1 | - | - |
| RM6,000,001 to RM7,000,000 | - | 1 | - | - |

There are no outstanding options over the ordinary shares of the Company granted under ESOS to the Directors at the balance sheet date (2012: Nil).

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 OTHER OPERATING EXPENSES

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

| | Group | | Company | |
|---|----------|--------|----------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Impairment of amount due from a subsidiary | - | - | 5,306 | - |
| Impairment of available-for-sale financial asset | 2,685 | - | - | - |
| Regional expenses incurred | 45,438 | - | 45,438 | - |
| Impairment of trade and other receivables | 18,864 | - | 16,382 | - |
| Rental of land and building | 6,310 | 6,140 | 6,310 | 6,140 |
| Auditors' remuneration | | | | |
| - audit fees | 885 | 700 | 843 | 675 |
| - non-audit fees | 154 | 169 | 154 | 169 |
| Rental of equipment | 2,255 | 2,929 | 2,255 | 2,929 |
| Advertising costs | 42,316 | 35,408 | 42,316 | 35,327 |
| Net foreign exchange losses/(gains) from operations | | | | |
| - Realised | 17,137 | 29,440 | 17,137 | 29,440 |
| - Unrealised | (35,010) | 49,834 | (35,010) | 49,834 |
| | | | | |

7 OTHER GAINS/(LOSSES) - NET

| | Group and Company | |
|---|-------------------|---------|
| | 2013 | 2012 |
| | RM'000 | RM'000 |
| Interest rate contracts – Held for trading | 48,112 | 20,613 |
| Forward foreign exchange contracts – Held for trading | 44,634 | (5,262) |
| Fuel contracts – Held for trading | - | (4,231) |
| Ineffectiveness on cash flow hedges (Note 22) | (57) | (85) |
| | 92,689 | 11,035 |

8 OTHER INCOME

| | Group | | Company | |
|--|---------|---------|---------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Gain on disposals of property, plant and equipment | 3,036 | 9,328 | 3,036 | 9,328 |
| Others | 178,243 | 114,614 | 134,777 | 104,182 |
| | 181,279 | 123,942 | 137,813 | 113,510 |

Other income ('others') includes brand licence fees, commission income and advertising income.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

9 FINANCE INCOME/(COSTS)

| | <u>2013</u> RM'000 | <u>Group</u> <u>2012</u> RM'000 | <u>2013</u> RM'000 | <u>Company</u> <u>2012</u> RM'000 |
|---|-----------------------|---------------------------------------|-----------------------|---|
| Finance income: | | | | |
| - deposits with licensed banks | 4,779 | 12,034 | 4,779 | 12,034 |
| - short term deposits with fund management companies | 759 | 3,017 | 759 | 3,017 |
| - interest income on amounts due from associates and joint ventures | 49,628 | 51,174 | 49,628 | 51,042 |
| - other interest income | 9,042 | 13,166 | 9,026 | 13,144 |
| | <u>64,208</u> | <u>79,391</u> | <u>64,192</u> | <u>79,237</u> |
| Finance costs: | | | | |
| Interest expense | | | | |
| - bank borrowings | (418,794) | (369,418) | (418,794) | (369,418) |
| - amortisation of premiums for interest rate caps | (8,032) | (7,895) | (8,032) | (7,895) |
| Bank facilities and other charges | (1,580) | (1,495) | (1,521) | (1,472) |
| | <u>(428,406)</u> | <u>(378,808)</u> | <u>(428,347)</u> | <u>(378,785)</u> |
| FOREIGN EXCHANGE (LOSSES)/GAINS | | | | |
| Borrowings: | | | | |
| - realised | (5,606) | (3,590) | (5,606) | (3,590) |
| - unrealised | (586,767) | 255,358 | (586,767) | 255,326 |
| - fair value movement recycled from cash flow hedge reserve | 194,578 | (106,343) | 194,578 | (106,343) |
| | <u>(397,795)</u> | <u>145,425</u> | <u>(397,795)</u> | <u>145,393</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

10 TAXATION

| | Group | | Company | |
|---|-----------------|----------------|-----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Current taxation | 18,910 | 18,587 | 18,910 | 18,536 |
| Over accrual of Income tax in prior years | - | (342) | - | (342) |
| | <u>18,910</u> | <u>18,245</u> | <u>18,910</u> | <u>18,194</u> |
| Deferred taxation (Note 18) | (19,799) | 154,704 | (19,799) | 154,755 |
| | <u>(889)</u> | <u>172,949</u> | <u>(889)</u> | <u>172,949</u> |
| Current taxation | | | | |
| - Current financial year | 18,910 | 18,587 | 18,910 | 18,536 |
| - Over accrual of Income tax in prior years | - | (342) | - | (342) |
| | <u>18,910</u> | <u>18,245</u> | <u>18,910</u> | <u>18,194</u> |
| Deferred taxation | | | | |
| - Origination and reversal of temporary differences | 68,468 | 241,753 | 68,468 | 241,804 |
| - Tax incentives | (88,267) | (87,049) | (88,267) | (87,049) |
| | <u>(19,799)</u> | <u>154,704</u> | <u>(19,799)</u> | <u>154,755</u> |
| | <u>(889)</u> | <u>172,949</u> | <u>(889)</u> | <u>172,949</u> |

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

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

| | Group | | Company | |
|---|----------------|------------------------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 (restated) | 2013 RM'000 | 2012 RM'000 |
| Profit before taxation | <u>361,235</u> | <u>962,557</u> | <u>184,091</u> | <u>835,807</u> |
| Tax calculated at Malaysian tax rate of 25% (2012: 25%) | 90,309 | 240,639 | 46,023 | 208,952 |
| Tax effects of: | | | | |
| - expenses not deductible for tax purposes | 107,711 | 56,264 | 107,711 | 54,713 |
| - income not subject to tax | (31,419) | (36,956) | (949) | (3,325) |
| - associates' results reported net of tax | (10,416) | (332) | - | - |
| - joint ventures' results reported net of tax | (3,400) | 725 | - | - |
| - tax incentives | (137,133) | (87,049) | (137,133) | (87,049) |
| - change in statutory tax rate | (16,541) | - | (16,541) | - |
| - over accrual of income tax in prior years | - | (342) | - | (342) |
| Taxation | <u>(889)</u> | <u>172,949</u> | <u>(889)</u> | <u>172,949</u> |

AIRASIA BERHAD
(Incorporated In Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

11 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

| | <u>2013</u> | <u>Group 2012 (restated)</u> |
|--|-------------|--------------------------------------|
| Net profit for the financial year (RM'000) | 362,124 | 789,608 |
| Weighted average number of ordinary shares in issue ('000) | 2,780,542 | 2,779,057 |
| Earnings per share (sen) | <u>13.0</u> | <u>28.4</u> |

(b) Diluted earnings per share

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

The Group has dilutive potential ordinary shares arising from the Company's share options granted to employees.

In assessing the dilution in earnings per share arising from the issue of share options, a computation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. This computation serves to determine the "bonus" element to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit for the financial year in the calculation of the diluted earnings per share from the issue of the share options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | <u>2013</u> | <u>Group 2012 (restated)</u> |
|---|------------------|--------------------------------------|
| Net profit for the financial year (RM'000) | 362,124 | 789,608 |
| Weighted average number of ordinary shares in issue ('000) | 2,780,542 | 2,779,057 |
| Adjustment for ESOS ('000) | 2,020 | 3,124 |
| Weighted average number of ordinary shares for diluted earnings per share | <u>2,782,562</u> | <u>2,782,181</u> |
| Diluted earnings per share (sen) | <u>13.0</u> | <u>28.4</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

12 PROPERTY, PLANT AND EQUIPMENT

| <u>Group</u> | At 1 January 2013 RM'000 | Additions RM'000 | Disposals RM'000 | Depreciation charge RM'000 | At 31 December 2013 RM'000 |
|--|--------------------------------|---------------------|---------------------|----------------------------------|----------------------------------|
| <u>Net book value</u> | | | | | |
| Aircraft engines, airframe and service potential | 9,563,749 | 2,036,509 | (4,050) | (546,655) | 11,049,553 |
| Aircraft spares | 125,207 | 32,220 | (6,781) | (25,371) | 125,275 |
| Aircraft fixtures and fittings | 18,647 | 13,383 | (686) | (7,192) | 24,152 |
| Buildings | 34,581 | - | - | (1,404) | 33,177 |
| Motor vehicles | 4,811 | 3,508 | (1,507) | (1,945) | 4,867 |
| Office equipment, furniture and fittings | 18,705 | 7,990 | (74) | (7,496) | 20,125 |
| Office renovation | 6,218 | 4,209 | - | (2,311) | 8,116 |
| Simulator equipment | 1,138 | - | - | (39) | 1,099 |
| Operating plant and ground equipment | 9,795 | 5,741 | (303) | (3,743) | 11,490 |
| In-flight equipment | 816 | 99 | - | (317) | 598 |
| Training equipment | 1,363 | - | - | (785) | 578 |
| Work in progress | - | 13,786 | - | - | 13,796 |
| | <u>9,786,030</u> | <u>2,117,455</u> | <u>(13,401)</u> | <u>(597,258)</u> | <u>11,292,826</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| <u>Group</u> | <u>Cost</u> RM'000 | <u>Accumulated depreciation</u> RM'000 | <u>Accumulated impairment loss</u> RM'000 | <u>Net book value</u> RM'000 |
|---|-----------------------|---|--|-------------------------------------|
| <u>At 31 December 2013</u> | | | | |
| Aircraft engines, airframe and service potential | 13,844,568 | (2,795,015) | - | 11,049,553 |
| Aircraft spares | 278,869 | (136,611) | (16,983) | 125,275 |
| Aircraft fixtures and fittings | 95,845 | (71,693) | - | 24,152 |
| Buildings | 41,204 | (8,027) | - | 33,177 |
| Motor vehicles | 22,595 | (17,728) | - | 4,867 |
| Office equipment, furniture and fittings | 69,692 | (49,567) | - | 20,125 |
| Office renovation | 21,557 | (13,441) | - | 8,116 |
| Simulator equipment | 4,967 | (3,868) | - | 1,099 |
| Operating plant and ground equipment | 41,037 | (29,547) | - | 11,490 |
| In-flight equipment | 1,831 | (1,233) | - | 598 |
| Training equipment | 4,419 | (3,841) | - | 578 |
| Work in progress | 13,796 | - | - | 13,796 |
| | <u>14,440,380</u> | <u>(3,130,571)</u> | <u>(16,983)</u> | <u>11,292,826</u> |

AIRASIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

| Group | At 1 January 2012 RM'000 | Additions RM'000 | Disposals RM'000 | Depreciation charge RM'000 | At 31 December 2012 RM'000 |
|--|--------------------------------|---------------------|---------------------|----------------------------------|----------------------------------|
| <u>Net book value</u> | | | | | |
| Aircraft engines, airframe and service potential | 8,379,790 | 1,827,282 | (124,154) | (519,169) | 9,563,749 |
| Aircraft spares | 109,404 | 40,624 | (2,559) | (22,262) | 125,207 |
| Aircraft fixtures and fittings | 15,655 | 12,948 | (1,283) | (8,673) | 18,647 |
| Buildings | 35,979 | - | - | (1,398) | 34,581 |
| Motor vehicles | 4,477 | 2,140 | - | (1,806) | 4,811 |
| Office equipment, furniture and fittings | 19,498 | 7,293 | (335) | (6,751) | 19,705 |
| Office renovation | 6,045 | 2,799 | (790) | (1,836) | 6,218 |
| Simulator equipment | 1,152 | 24 | - | (38) | 1,138 |
| Operating plant and ground equipment | 10,894 | 2,933 | (2) | (4,030) | 9,795 |
| In-flight equipment | 1,381 | 83 | (319) | (329) | 816 |
| Training equipment | 2,176 | 71 | - | (884) | 1,363 |
| | <u>8,586,451</u> | <u>1,896,197</u> | <u>(129,442)</u> | <u>(567,176)</u> | <u>9,786,030</u> |

AIRASIA BERHAD
(Incorporated In Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Group | <u>Cost</u> RM'000 | <u>Accumulated depreciation</u> RM'000 | <u>Accumulated impairment loss</u> RM'000 | <u>Net book value</u> RM'000 |
|---|-----------------------|---|--|-------------------------------------|
| <u>At 31 December 2012</u> | | | | |
| Aircraft engines, airframe and service potential | 11,830,322 | (2,266,573) | - | 9,563,749 |
| Aircraft spares | 253,714 | (111,524) | (16,983) | 125,207 |
| Aircraft fixtures and fittings | 83,180 | (64,533) | - | 18,647 |
| Buildings | 41,204 | (6,623) | - | 34,581 |
| Motor vehicles | 20,746 | (15,935) | - | 4,811 |
| Office equipment, furniture and fittings | 62,258 | (42,553) | - | 19,705 |
| Office renovation | 17,348 | (11,130) | - | 6,218 |
| Simulator equipment | 4,967 | (3,829) | - | 1,138 |
| Operating plant and ground equipment | 35,989 | (26,194) | - | 9,795 |
| In-flight equipment | 1,732 | (916) | - | 816 |
| Training equipment | 4,419 | (3,056) | - | 1,363 |
| | <u>12,355,879</u> | <u>(2,552,866)</u> | <u>(16,983)</u> | <u>9,786,030</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

| <u>Company</u> | At 1 January 2013 RM'000 | Additions RM'000 | Disposals RM'000 | Depreciation charge RM'000 | At 31 December 2013 RM'000 |
|--|--------------------------------|---------------------|---------------------|----------------------------------|----------------------------------|
| <u>Net book value</u> | | | | | |
| Aircraft engines, airframe and service potential | 9,563,749 | 2,036,509 | (4,050) | (546,655) | 11,049,553 |
| Aircraft spares | 125,207 | 32,220 | (6,781) | (25,371) | 125,275 |
| Aircraft fixtures and fittings | 18,647 | 13,383 | (686) | (7,192) | 24,152 |
| Buildings | 34,581 | - | - | (1,404) | 33,177 |
| Motor vehicles | 4,811 | 3,508 | (1,507) | (1,945) | 4,867 |
| Office equipment, furniture and fittings | 19,705 | 6,477 | (74) | (7,356) | 18,752 |
| Office renovation | 6,218 | 636 | - | (2,020) | 4,834 |
| Simulator equipment | 1,138 | - | - | (39) | 1,099 |
| Operating plant and ground equipment | 9,795 | 5,741 | (303) | (3,743) | 11,490 |
| In-flight equipment | 816 | 99 | - | (317) | 598 |
| Training equipment | 1,363 | - | - | (785) | 578 |
| Work in progress | - | 13,796 | - | - | 13,796 |
| | <u>9,786,030</u> | <u>2,112,369</u> | <u>(13,401)</u> | <u>(596,827)</u> | <u>11,288,171</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

| <u>Company</u> | <u>Cost</u> RM'000 | <u>Accumulated depreciation</u> RM'000 | <u>Accumulated impairment loss</u> RM'000 | <u>Net book value</u> RM'000 |
|---|-----------------------|---|--|-------------------------------------|
| <u>At 31 December 2013</u> | | | | |
| Aircraft engines, airframe and service potential | 13,844,568 | (2,795,015) | - | 11,049,553 |
| Aircraft spares | 278,869 | (136,611) | (16,983) | 125,275 |
| Aircraft fixtures and fittings | 95,845 | (71,693) | - | 24,152 |
| Buildings | 41,204 | (8,027) | - | 33,177 |
| Motor vehicles | 22,595 | (17,728) | - | 4,867 |
| Office equipment, furniture and fittings | 68,179 | (49,427) | - | 18,752 |
| Office renovation | 17,984 | (13,150) | - | 4,834 |
| Simulator equipment | 4,967 | (3,868) | - | 1,099 |
| Operating plant and ground equipment | 41,037 | (29,547) | - | 11,490 |
| In-flight equipment | 1,831 | (1,233) | - | 598 |
| Training equipment | 4,419 | (3,841) | - | 578 |
| Work In progress | 13,796 | - | - | 13,796 |
| | <u>14,435,294</u> | <u>(3,130,140)</u> | <u>(16,983)</u> | <u>11,288,171</u> |

AIRASIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

| <u>Company</u> | At 1 January 2012 RM'000 | Additions RM'000 | Disposals RM'000 | Depreciation charge RM'000 | At 31 December 2012 RM'000 |
|--|--------------------------------|---------------------|---------------------|----------------------------------|----------------------------------|
| <u>Net book value</u> | | | | | |
| Aircraft engines, airframe and service potential | 8,379,790 | 1,827,282 | (124,154) | (519,169) | 9,563,749 |
| Aircraft spares | 109,404 | 40,624 | (2,559) | (22,262) | 125,207 |
| Aircraft fixtures and fittings | 15,655 | 12,948 | (1,283) | (8,673) | 18,647 |
| Buildings | 35,979 | - | - | (1,398) | 34,581 |
| Motor vehicles | 4,477 | 2,140 | - | (1,806) | 4,811 |
| Office equipment, furniture and fittings | 19,193 | 7,293 | (30) | (6,751) | 19,705 |
| Office renovation | 6,045 | 2,799 | (790) | (1,836) | 6,218 |
| Simulator equipment | 1,152 | 24 | - | (38) | 1,138 |
| Operating plant and ground equipment | 10,894 | 2,933 | (2) | (4,030) | 9,795 |
| In-flight equipment | 1,381 | 83 | (319) | (329) | 816 |
| Training equipment | 2,176 | 71 | - | (884) | 1,363 |
| | <u>8,586,146</u> | <u>1,896,197</u> | <u>(129,137)</u> | <u>(567,176)</u> | <u>9,786,030</u> |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

| <u>Company</u> | <u>Cost</u> RM'000 | <u>Accumulated depreciation</u> RM'000 | <u>Accumulated impairment loss</u> RM'000 | <u>Net book value</u> RM'000 |
|---|-----------------------|---|--|-------------------------------------|
| <u>At 31 December 2012</u> | | | | |
| Aircraft engines, airframe and service potential | 11,830,322 | (2,266,573) | - | 9,563,749 |
| Aircraft spares | 253,714 | (111,524) | (16,983) | 125,207 |
| Aircraft fixtures and fittings | 83,180 | (64,533) | - | 18,647 |
| Buildings | 41,204 | (6,623) | - | 34,581 |
| Motor vehicles | 20,746 | (15,935) | - | 4,811 |
| Office equipment, furniture and fittings | 62,258 | (42,553) | - | 19,705 |
| Office renovation | 17,348 | (11,130) | - | 6,218 |
| Simulator equipment | 4,967 | (3,829) | - | 1,138 |
| Operating plant and ground equipment | 35,989 | (26,194) | - | 9,795 |
| In-flight equipment | 1,732 | (916) | - | 816 |
| Training equipment | 4,419 | (3,056) | - | 1,363 |
| | <u>12,355,879</u> | <u>(2,552,866)</u> | <u>(16,983)</u> | <u>9,786,030</u> |

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

| | <u>Group and Company</u> | |
|---|--------------------------|-----------------------|
| | <u>2013</u> RM'000 | <u>2012</u> RM'000 |
| Net book value of owned aircraft sub-leased to associates | 4,254,518 | 3,494,822 |
| Aircraft pledged as security for borrowings (Note 29) | 11,049,553 | 9,561,999 |

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

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

During the financial year, the Company revised the estimated useful life of its engine service potential from 7 years to 8 years. The reduction in depreciation charges for the financial year arising from the revision amounted to RM41,988,000.

| | |
|-------------|---|
| Company No. | |
| 284669 | W |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

13 INVESTMENT IN SUBSIDIARIES

| | <u>2013</u> | <u>Company</u> <u>2012</u> |
|-------------------------------------|---------------|-------------------------------|
| | RM'000 | RM'000 |
| Unquoted investments, at cost | 23,516 | 27,316 |
| Less: Accumulated impairment losses | (36) | (3,836) |
| | <u>23,480</u> | <u>23,480</u> |
| At 1 January/31 December | <u>23,480</u> | <u>23,480</u> |

The details of the subsidiaries are as follows:

| <u>Name of entity</u> | <u>Country of incorporation</u> | <u>Group's effective equity interest</u> | | <u>Principal activities</u> |
|--------------------------------------|---------------------------------|--|-------------|--|
| | | <u>2013</u> | <u>2012</u> | |
| | | % | % | |
| <u>Directly held by the Company:</u> | | | | |
| AirAsia Investment Ltd ("AAIL") | Malaysia | 100 | 100 | Investment holding |
| AirAsia Go Holiday Sdn Bhd ("AGH") | Malaysia | 100 | 100 | Tour operating business |
| AirAsia (Mauritius) Limited* | Mauritius | 100 | 100 | Providing aircraft leasing facilities to Thai AirAsia Co. Ltd |
| AirAsia Corporate Services Limited * | Malaysia | 100 | 100 | Facilitate business transactions for AirAsia Group with non-resident goods and service providers |
| Aras Sejagat Sdn Bhd | Malaysia | 100 | 100 | Special purpose vehicle for financing arrangements required by AirAsia |

AIRASIA BERHAD
(Incorporated In Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

13 INVESTMENT IN SUBSIDIARIES (CONTINUED)

The details of the subsidiaries are as follows: (continued)

| <u>Name of entity</u> | <u>Country of incorporation</u> | <u>Group's effective equity interest</u> | | <u>Principal activities</u> |
|--|---------------------------------|--|------------------|---|
| | | <u>2013</u> % | <u>2012</u> % | |
| <u>Directly held by the Company.</u> | | | | |
| Koolred Sdn Bhd ("Koolred") | Malaysia | 100 | 100 | Investment holding |
| Asia Air Limited ** | United Kingdom | - | 100 | To provide and promote AirAsia's in-flight food to the European market, currently dormant |
| AirAsia Global Shared Services Sdn Bhd ("AGSS") | Malaysia | 100 | - | To provide shared services and outsourcing for its affiliates |
| <u>Held by AGH</u> | | | | |
| AirAsia Exp Pte. Ltd ("AAE") * | Singapore | 100 | 100 | Investment holding |
| <u>Held by AAIL</u> | | | | |
| AirAsia Capital Ltd * | Malaysia | 100 | 100 | Dormant |

* Not audited by PricewaterhouseCoopers, Malaysia

** Approved for strike off from Registrar of Companies for England and Wales on 18 June 2013

On 8 May 2013, as a wholly-owned subsidiary of the Company, AirAsia Global Shared Services Sdn Bhd ("AGSS") was incorporated in Malaysia to act as a shared services and outsourcing hub for the Company and its affiliates. The initial share capital of AGSS is RM2.00 comprising of 2 ordinary shares of RM1.00 each.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

14 INVESTMENT IN JOINT VENTURES

The amounts recognised in the balance sheet are as follows:

| | <u>Group</u> | | <u>Company</u> | |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2013</u> RM'000 | <u>2012</u> RM'000 | <u>2013</u> RM'000 | <u>2012</u> RM'000 |
| Represented by: | | | | |
| Unquoted investments, at cost | 111,674 | 111,674 | 81,559 | 81,559 |
| Share of post-acquisition reserves | 22,680 | 9,081 | - | - |
| | <u>134,354</u> | <u>120,755</u> | <u>81,559</u> | <u>81,559</u> |

The joint ventures listed below have share capital consisting solely of ordinary shares, which are directly held by the Group:

| <u>Name of entity</u> | <u>Principal place of business/ country of incorporation</u> | <u>Group's effective equity interest</u> | | <u>Principal activities</u> |
|---|--|--|-------------|-----------------------------|
| | | <u>2013</u> | <u>2012</u> | |
| | | <u>%</u> | <u>%</u> | |
| Think Big Digital Sdn Bhd ("BIG") | Malaysia | 50 | 50 | Financial services |
| Asian Aviation Centre of Excellence Sdn Bhd ("AACOE") | Malaysia | 50 | 50 | Aviation training |
| <u>Held by AAE</u> | | | | |
| AAE Travel Pte Ltd ("AAE Travel") | Singapore | 50 | 50 | Online travel agency |

All the joint ventures listed above are private companies for which there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the joint ventures.

BIG is a strategic partner of the Company and is based in Malaysia. BIG provides expertise in the operation of an airline loyalty scheme which will enable the Company to earn incremental revenue from the redemption of loyalty points issued by BIG.

AACOE is an aviation training centre with operations in Malaysia and Singapore. AACOE is a strategic partner of the Company and provides initial and recurrent training for both pilots and flight attendants. AACOE also provides training to TAA, IAA and PAA and other airline clients in the region.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

14 INVESTMENT IN JOINT VENTURES (CONTINUED)

AAE Travel is an online travel agent based in Singapore. AAE Travel is a strategic partner and sells both hotel accommodation and flights across the Asean region. AAE Travel provides the Company with an additional distribution channel and access to a wider market.

Summarised financial information for joint ventures

Set out below are the summarised financial information for the joint ventures which are accounted for using the equity method:

Summarised balance sheet

| | AACOE | | AAE Travel | | Total | |
|--------------------------------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Current</u> | | | | | | |
| Cash and cash equivalents | 77,721 | 13,768 | 76,179 | 45,214 | 153,900 | 58,982 |
| Other current assets | 35,714 | 37,564 | 15,274 | 15,959 | 50,988 | 53,523 |
| Total current assets | 113,435 | 51,332 | 91,453 | 61,173 | 204,888 | 112,505 |
| <u>Financial liabilities</u> | | | | | | |
| (excluding trade payables) | (23,790) | (73,433) | (8,377) | (7,299) | (32,167) | (80,732) |
| <u>Other current liabilities</u> | | | | | | |
| (including trade payables) | (22,327) | (3,426) | (26,771) | (15,171) | (49,098) | (18,597) |
| Total current liabilities | (46,117) | (76,859) | (35,148) | (22,470) | (81,265) | (99,329) |
| <u>Non-current</u> | | | | | | |
| <u>Assets</u> | | | | | | |
| | 264,567 | 224,934 | 6,101 | 7,425 | 270,668 | 232,359 |
| <u>Financial liabilities</u> | | | | | | |
| | (125,583) | (4,025) | - | - | (125,583) | (4,025) |
| Total non-current liabilities | (125,583) | (4,025) | - | - | (125,583) | (4,025) |
| Net assets | 206,302 | 195,382 | 62,406 | 46,128 | 268,708 | 241,510 |

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

14 INVESTMENT IN JOINT VENTURES (CONTINUED)

Summarised statement of comprehensive income

| | AACOE | | AAE Travel | | Total | |
|--|----------|----------|------------|----------|----------|----------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 88,927 | 76,972 | 312,409 | 240,209 | 401,336 | 317,181 |
| Depreciation and amortisation | (17,633) | (13,282) | (3,084) | (1,491) | (20,717) | (14,774) |
| Interest income | - | - | 12,499 | 2,282 | 12,499 | 2,282 |
| Interest expense | (2,102) | (2,227) | - | - | (2,102) | (2,227) |
| Profit/(loss) before taxation | 23,128 | 17,824 | 18,027 | (23,431) | 41,155 | (5,607) |
| Income tax expense | (12,208) | - | (1,750) | (418) | (13,958) | (418) |
| Profit/(loss) after taxation | 10,920 | 17,824 | 16,277 | (23,849) | 27,197 | (6,025) |
| Other comprehensive loss | - | - | - | (171) | - | (171) |
| Total comprehensive income | 10,920 | 17,824 | 16,277 | (24,020) | 27,197 | (6,196) |
| Dividends received from joint ventures | - | - | - | - | - | - |

Reconciliations of summarised financial information

| | AACOE | | AAE Travel | | Total | |
|--------------------------------------|---------|---------|------------|----------|---------|---------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Opening net assets at 1 January | 195,382 | 177,558 | 46,129 | 69,750 | 241,511 | 247,308 |
| Profit/(loss) for the financial year | 10,920 | 17,824 | 16,277 | (23,849) | 27,197 | (6,025) |
| Other comprehensive loss | - | - | - | (171) | - | (171) |
| Foreign exchange differences | - | - | - | 398 | - | 398 |
| Closing net assets at 31 December | 206,302 | 195,382 | 62,406 | 46,128 | 268,708 | 241,510 |
| Interest in joint ventures at 50% | 103,151 | 97,691 | 31,203 | 23,064 | 134,354 | 120,755 |
| Carrying value at 31 December | 103,151 | 97,691 | 31,203 | 23,064 | 134,354 | 120,755 |

The Group has discontinued the recognition of its share of losses made by BIG as the Group's interest in BIG had been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of this joint venture. The Group's share of loss of BIG for the financial year, which has not been equity accounted for, amounted to RM23.3 million. As at 31 December 2013, the unrecognised amounts of the Group's share of losses of BIG which have not been equity accounted for amounted to RM33.1 million (2012: RM9.8 million).

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

15 INVESTMENT IN ASSOCIATES

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Unquoted investments, at cost | 186,223 | 171,280 | 29 | 29 |
| Group's share of post-acquisition profits/(losses) | 74,260 | (8,435) | - | - |
| | <u>260,483</u> | <u>162,845</u> | <u>29</u> | <u>29</u> |

The details of the associates are as follows:

| Name of entity | Principal place of business/ country of incorporation | Group's effective equity interest | | Principal activities |
|---|--|-----------------------------------|-----------|--|
| | | 2013 % | 2012 % | |
| AirAsia Philippines Inc | Philippines | 39.9 | 39.9 | Providing air transportation services, currently dormant |
| Asian Contact Centres Sdn. Bhd. | Malaysia | 50.0 | 50.0 | Providing end-to-end solutions for customers contact management and contact centre |
| <u>Held by AAIL</u> | | | | |
| PT Indonesia AirAsia ("IAA") | Indonesia | 48.9 | 48.9 | Commercial air transport services |
| Thal AirAsia Co. Ltd ("TAA") | Thailand | 45.0 | 45.0 | Commercial air transport services |
| AirAsia Go Holiday Co. Ltd | Thailand | 49.0 | 49.0 | Tour operating business, currently dormant |
| AirAsia Inc ("PAA") | Philippines | 40.0 | 40.0 | Commercial air transport services |
| AirAsia Japan Co., Ltd ("JAA") | Japan | - | 49.0 | Commercial air transport services |
| AirAsia (India) Private Limited ("AAIPL") | India | 49.0 | - | Commercial air transport services – currently not operating |

All the associates listed above are private companies for which there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the associates.