

A blurred photograph of an airport boarding gate area. In the background, there are people, some with luggage, and signs. One sign on the right says "HOTLINE" and "PLAY UN". The overall scene is busy and out of focus, suggesting a sense of movement and activity.

we believe

our direction

is clear & focused

2:45 pm | BOARDING GATE AT LCCT | Capt. Davendra Kumar, Airbus A320 Pilot

...NK LIMITED. KELENGKAPAN DUNIA MOBILITI. maxis

Perlepasan Dalam Negeri Domestic

Debus Negeri



Duty Free

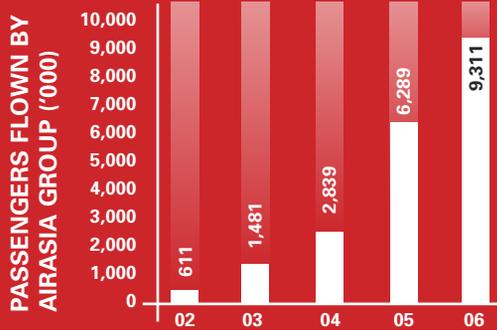
chairman's

"AIRASIA'S PEOPLE ARE THE DRIVING FORCE BEHIND THIS ORGANISATION, AND OUR UNIQUE CORPORATE CULTURE CONTINUES TO FLOURISH AS THE SIZE OF OUR COMPANY EXPANDS."

Pahamin Ab. Rajab
Chairman



statement



Dear Shareholders,

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

AirAsia's people are the driving force behind this organisation, and our unique corporate culture continues to flourish

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

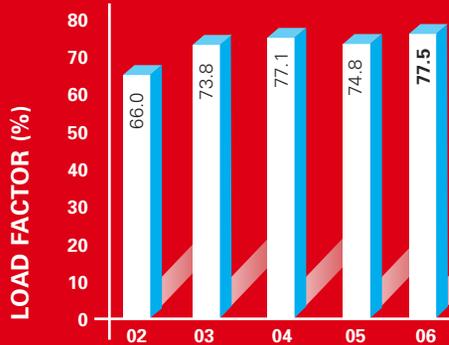
Under the International Financial Reporting Standard (IFRS) principally IAS 12, the net profit figure will be RM242 million. However, under Malaysian Accounting Standard Board's policies, the reported net income figure

is RM88.4 million. The deviation arose because the Malaysian accounting standard does not allow the Company to recognise the investment tax allowance granted to the Company by the Malaysian Government. This investment tax allowance effectively shelters the Company from making tax payments, and this may span many years into the future based on current profit and capital expenditure projections.

It was a very challenging year, fuel price kept going up and competition intensified. Our fuel hedge and fuel surcharge partially cushioned the



chairman's statement



“WE HAVE MADE OUR ENTRY TO VIETNAM, BRUNEI AND CAMBODIA, THUS BRINGING US CLOSER TO OUR AMBITION TO FLY TO EVERY ASEAN COUNTRY.”



CAPT. JANET CHEN, AirAsia's first female pilot



TONY QUEK, Regional Manager, Network Management Centre

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

There were a number of exciting highlights in the past year. We have moved our operations to the Low Cost Carrier Terminal (LCCT). This terminal provides us with significant cost savings and enhances our service level. We have made our entry to Vietnam, Brunei and Cambodia, thus bringing us

closer to our ambition to fly to every ASEAN country. The domestic rationalisation was successfully implemented on 1 August 2006. This is an important milestone as the domestic rationalisation provides the platform for level playing field and market driven competition in the domestic Malaysian operations.

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

In a challenging industry, our investors can always be confident of the amazing team of people we have assembled to run this airline. We will stick to our tested and proven business model to offer the lowest fare available, introduce new routes and keep the business simple and as low cost as possible. From all of us at AirAsia, thank you for your ongoing support that will allow us to continue to profitably bring affordable travel to more people and to more destinations across Asia.

Pahamin Ab. Rajab
Chairman

BNP PARIBAS

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

We are happy to be associated with AirAsia in the financing of its A320-200 aircraft.



www.bnpparibas.com

The bank for a changing world



YOU HELP EVERYONE TO FLY. WE HELP YOU TO SOAR.

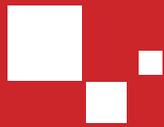
Award-winning AirAsia has soared onto the Asian travel scene with a successful formula of understanding customers' needs, cost-efficient services, out-of-the-box products and a corporate culture that encompasses safety, care, fun, integrity and passion to be the best. We are committed to be your partner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

www.wholesale.abnamro.com

Making more possible



ABN·AMRO



group
chief executive officer's.
review



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

Tony Fernandes
Group Chief Executive Officer



group **chief executive officer's** review



AZIZA ARIFFIN, Duty Executive, Kuching Hub

Dear Shareholders,

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

Our ability to successfully manoeuvre these challenges is a testimony to the dedication and commitment of the people of AirAsia. Our people's commitment and efforts to meet our guests' expectations and our own goals for reliability and efficiency are second

to none. Not only did this dedication allow us to withstand this difficult environment, but it resulted in a number of important accomplishments that will position AirAsia for our next phase of continued growth.

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



STRATEGIC ACTIONS IN 2006

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

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



DOMESTIC RATIONALISATION

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

LOW COST CARRIER TERMINAL @ RED FORT

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

AIRBUS A320

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

As the number of Airbus A320 aircraft in our fleet increase, we will continue to achieve greater reductions in operational costs. At the same time,

CAPT. SUKHDEV SINGH,
Synthetic Flight Instructor, Airbus A320

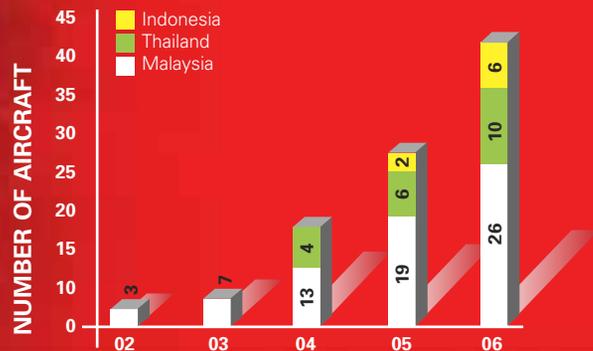


our guests will enjoy the better comfort and reliability of these new aircraft. The Airbus A320 aircraft has certainly raised AirAsia's brand equity and enhanced our competitive advantage over our competitors. We are capturing new markets that we never dreamt of before due to the induction of these brand new sophisticated aircraft.

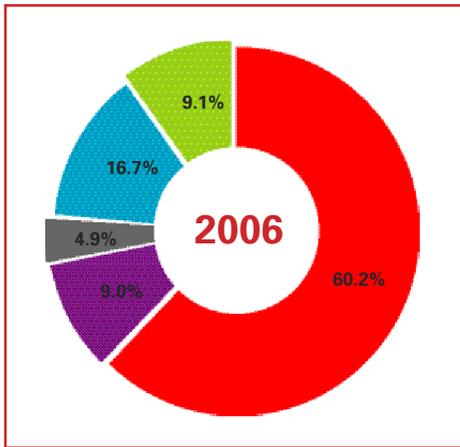
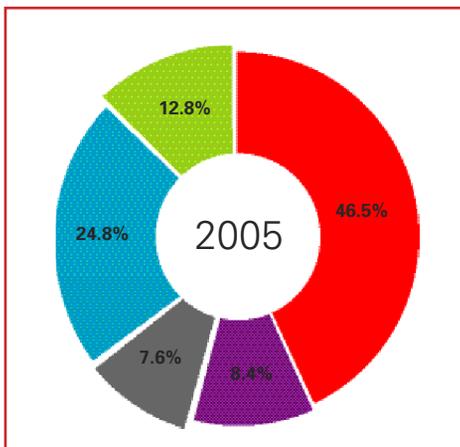
MANCHESTER UNITED SPONSORSHIP

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





Distribution Mix



- Internet
- Travel Agent
- Sales Office
- Call Centre
- Airport Counters

United merchandise is very popular, and the sales generated well exceeded our expectations.

COMPETITION

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

strengthen AirAsia’s position in its marketplaces and to develop the Group into one of the leading low cost carriers in the world.

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

Yours faithfully,

Tony Fernandes
Group Chief Executive Officer

FUTURE DEVELOPMENT

AirAsia is stronger than ever and I am confident that the implementation of our strategic initiatives will position us well for future growth. The Group has a promising future with a strong brand, an energetic management team and a dedicated work force. Our aim during the forthcoming year is to continue to



CAPT. ONNY HARYADI,
Airbus A320 Pilot



AirAsia



Growing From Strength to Strength

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

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

The RHB Banking Group is also honoured to be associated with AirAsia and fully supports its vision of affordable flying for all.







**our safety
measures**
meet world class standards

safety



AIRASIA CONSIDERS SAFETY TO BE THE SINGLE MOST IMPORTANT ASPECT OF OUR OPERATIONS AND IT IS A CHARACTERISTIC THAT WE WILL NEVER COMPROMISE. AIRASIA IS STRINGENT ABOUT COMPLYING WITH THE HIGHEST INTERNATIONAL STANDARDS AND PROCEDURES SET BY THE MALAYSIAN CIVIL AVIATION REGULATIONS. AIRASIA'S TECHNICIANS AND ENGINEERS MAKE UP ONE OF THE MOST EXPERIENCED TEAMS IN MALAYSIA, WITH YEARS OF EXPERIENCE IN THE AVIATION INDUSTRY. SAFETY PROCEDURES INCLUDE STRICT AIRCRAFT MAINTENANCE, CONSTANT UPDATING AND TRAINING OF TECHNICIANS AND FLIGHT CREW.

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

TOTAL SAFETY MANAGEMENT SYSTEM

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

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

investing for the future



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

AIRASIA ACADEMY

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

The Academy serves as the platform to keep our people on track with the latest industry developments and incorporates best-practices. We have invested significantly to equip the Academy with

the latest and highest quality equipment and training procedures. The Academy is equipped with a Maintenance Flight Training Device ("MFTD"), the only one available in the region. This unique device allows our pilots to better prepare themselves for a real flight.

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

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

AIRASIA MAINTENANCE HANGAR

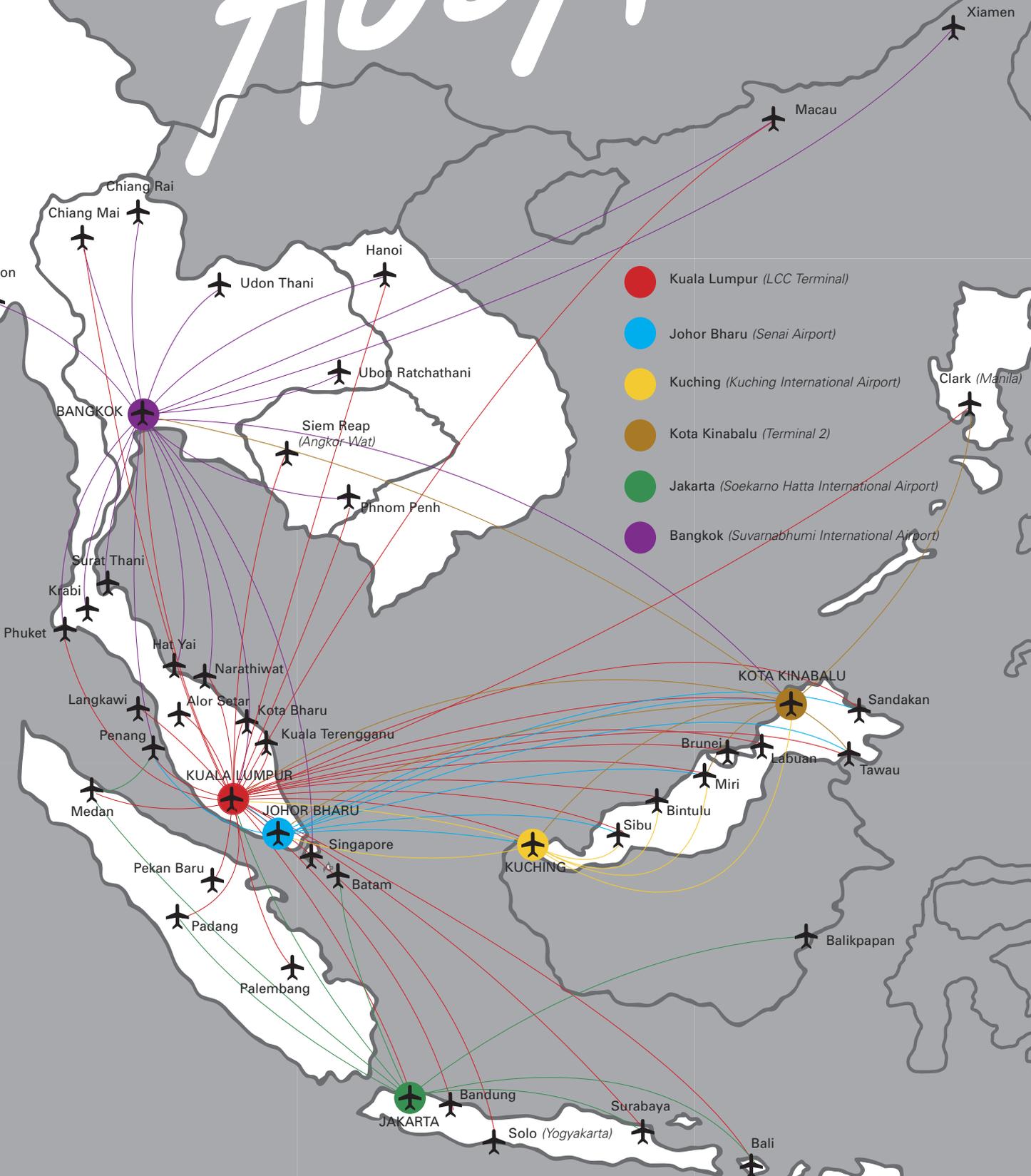
The maintenance hangar opening was officiated by YB Dato' Seri Chan Kong Choy, Minister of Transport Malaysia back in December 2004. This was a proud achievement for us, and the country as well, because the facility was designed and built by Malaysians. We believe in our home-grown talents who lived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

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



AirAsia route network

AirAsia



- Kuala Lumpur (LCC Terminal)
- Johor Bharu (Senai Airport)
- Kuching (Kuching International Airport)
- Kota Kinabalu (Terminal 2)
- Jakarta (Soekarno Hatta International Airport)
- Bangkok (Suvarnabhumi International Airport)

award & recognition

AirAsia

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

Year 2006

Centre for
Asia Pacific Aviation

- Merit Award for CAPA Airline of the Year 2006 by Centre for Asia Pacific Aviation (CAPA)

SmartTravel^{asia}

- Asia's Best Budget Airline by SmartTravelAsia.com under the Best In Travel 2006 list

FinanceAsia.com

- Winner in four categories including Best Managed Company, Best Corporate Governance, Best Investor Relations, and Most Committed to Strong Dividend Policy under The Annual Investor Poll of FinanceAsia.com

Year 2005

Centre for
Asia Pacific Aviation

- Tony Fernandes was awarded the Asia Pacific Aviation Executive of the Year 2005 by Centre for Asia Pacific Aviation (CAPA)

- Asia Aircraft Debt Deal of the Year by Jane's Transport Finance

PORTS
WORLD

- Transport Company of Excellence Award in conjunction with the annual Transport Industry Awards jointly organised by Ports World Sdn Bhd and the Chartered Institute of Logistics and Transport Malaysia

Forbes

- Asia's "Best Under A Billion" by Forbes

THE AIRLINES STRATEGY AWARDS
AIRLINE
BUSINESS

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

the people's airline



October 2005



9 October 2005



December 2005



19 May 2006

AIRASIA'S PHILOSOPHY OF LOW FARES HAS NEVER STOPPED US FROM BECOMING AN ACTIVE PARTICIPANT IN HELPING THOSE IN NEED. WE REMAIN VIGILANT ON COSTS AND CONTINUE TO HELP WITHIN OUR MEANS. OUR SPECIAL GIFT OF FLIGHT AND LOW FARES HAVE ALLOWED MANY TO REALISE DREAMS AND ENABLED CARING INDIVIDUALS AND ORGANISATIONS TO REACH OUT TO COMMUNITIES. AIRASIA ALSO CONTINUES FLYING VOLUNTEERS AND NON-PROFIT ORGANISATIONS AROUND THE REGION TO HELP REBUILD LIVES AND COMMUNITIES AFFECTED BY NATURAL DISASTERS.

OCTOBER 2005

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

9 OCTOBER 2005

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

DECEMBER 2005

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

19 MAY 2006

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

30 MAY 2006

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

7 AUGUST 2006

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

7-11 SEPTEMBER 2006

AirAsia flew 32 athletes on special fares from Kuala Lumpur to Kota Kinabalu to participate in Malaysia's First Special Olympics National Games held at Likas Sports Complex, Kota Kinabalu from 7-10 September 2006.

AirAsia

Official Low Fare Airline for Manchester United

AirAsia's partnership with Manchester United Football Club ("MUFC") was formed in September 2005 with the objective of using football as a platform to promote our brand around the World. This relationship yields mutual benefits; we are showcasing the MUFC brand significantly in Asia and in the process attracting millions of football enthusiasts all around the World to Asia. Ultimately, this will drive people to see more of Asia, knowing that they only need to spend a fraction of the cost if they fly with us. We also aim to tap into Manchester United's knowledge and resources to help inspire football in Malaysia and create opportunities for Asian fans to get closer to one of the world's biggest football clubs.

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

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

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

What do you think of AirAsia?

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

“The partnership with AirAsia has helped us get closer to the millions of fans we have in Asia. AirAsia has been an innovative and active partner, even branding one of their brand new planes with our Club's name and player images. The plane looks fantastic and the interior is impressive. I am looking forward to touring Asia next year with Manchester United.”

Are you looking forward to the Asia tour next summer?

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

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

Any message for your 40 million fans in Asia?

The team and I are looking forward to seeing you all next year. Keep supporting us!



Interview with Sir Alex Ferguson, Manager, Manchester United



Ryan Giggs

The Official Low Fare Airline  for Manchester United

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AirAsia

 CALYON

"A truly Global Aviation Bank
for an Outstanding Aviation Champion in Malaysia"

2005

Fuel Hedging
Interest Rate Hedging
Corporate Finance

  Jane's Transport Finance Aircraft Finance House of the Year 2005	<i>AirAsia</i> ECA financing for 6 A320-200 Overall Arranger & Agent Jane's Transport Finance Aircraft Debt Deal of the Year - Asia 2005	 中國南方航空股份有限公司 China Southern Airlines Company Limited JOL financing for 1 A320-200 Arranger Airfinance Journal Asia-Pacific Deal of the Year 2005
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Global Aviation Group

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Commitment, Execution**

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CRÉDIT AGRICOLE GROUP

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