

statement of corporate governance

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

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

A. DIRECTORS

The Board of Directors and Meetings

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

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

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

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

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

Board Balance

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

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

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

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

- ensuring that the Executive Directors look beyond their executive functions and accept their full share of responsibilities of governance.

Supply of Information

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

Appointments to the Board

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



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

Directors' Training

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

Re-election of Directors

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

Board Committees

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

The **Audit Committee** comprises two Independent Directors and one Non-Executive Director. The committee meets routinely at least five times a year with additional

meetings held where necessary. The Group Chief Financial Officer, senior management staff, the internal and external auditors attend such meetings by invitation and provide reports as required by the committee. At least one meeting is held each year with the Head of Internal Audit and the external auditors in private, in the absence of management.

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

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

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

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

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

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

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

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

The Committee has the following functions:

1. To review the overall safety and security performance of the Group and outline strategies and specific actions to improve same;
2. To review occurrence reports, trend analyses and corrective actions and to recommend any other actions which may be considered appropriate;
3. To monitor safety management processes in flight operations, engineering, ground operations and ensure that these are effective in terms of hazard identification and elimination and consistent with the operations quality goals of the Group;
4. To encourage seamless communication within the Group and between various departments so that any problem areas and learnings are quickly highlighted and corrective actions taken across the Group; and

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

B. DIRECTORS REMUNERATION

The remuneration package comprises the following elements:-

1. **Fee**
The fees payable to each of the Non-Executive Directors for their service on the Board and sub committees are recommended by the Remuneration Committee to the Board for final approval by shareholders of the Group at the AGM.
2. **Basic salary**
The basic salary for each Executive Director is recommended by the Remuneration Committee and approved by the Board, taking into account the performance of the individual, the inflation price index and information from independent sources on the rates of salary for similar positions in other comparable companies internationally. Salaries are reviewed annually.
3. **Bonus scheme**
The Group operates a bonus scheme for all employees, including the Executive Directors. The criteria for the scheme are dependent on various performance measures of the Group, together with an assessment of each individual's performance during the period.
4. **Benefits-in-kind**
Other customary benefits (such as private medical care, car, travel coupons, etc.) are made available as appropriate.
5. **Service contract**
Both the Group Chief Executive and Executive Director, have three-year service contracts with AirAsia.
6. **Directors' share options**
There was no movement in Directors' share options during the year ended 30 June 2005.

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

C. SHAREHOLDERS

Investor Relations

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

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

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

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

Annual General Meeting

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

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

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

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

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

Relationship with the Auditors

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

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

Internal Control

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

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

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

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

audit committee report

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

INTRODUCTION

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

COMPOSITION OF THE COMMITTEE AND MEETINGS

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

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

TERMS OF REFERENCE OF THE COMMITTEE

The Committee is governed by the following terms of reference:

A. Purpose

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

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

B. Membership

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

At least one member of the audit committee:-

- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years of working experience and:-
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

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

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

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

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

C. Roles and responsibility

- To consider the audit fee of the external auditor, any questions of resignation or dismissal of the external auditor and appointment of new external auditor to replace the outgoing auditor;
- To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- To act as an intermediary between management or other employees, and the external auditors;
- To review the quarterly and year-end financial statements of the Board, focusing particularly on:-
 - any changes in accounting policies and practices;
 - significant adjustments arising from the audit;
 - litigation that could affect results materially;
 - the going concern assumption;
 - compliance with accounting standards and other legal requirements;
- To discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary);
- To review the external auditor's management letter and management's response;
- To do the following where an internal audit function exists:-
 - review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - review the internal audit programme and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function;
 - review any appraisal or assessment of the performance of members of the internal audit function;
 - to review the independence of the internal audit function;
 - approve any appointment or termination of senior staff members of the internal audit function; and
 - inform itself of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit reasons for resigning.
- Review the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines;
- To consider any related party transactions that may arise within the Group;

- To consider compliance with the Group's conflict of interest policy;
- To consider compliance with the Group's insider trading policy;
- To consider the major findings of internal investigations and management's response;
- To consider other topics as defined by the Board;
- Internal controls and risk management;
- To review the Group's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters (in compliance with provisions made in the Securities Industry Act amended in 2004);
- To review management's and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management;
- To monitor the integrity of the Group's internal financial controls;
- To review the statement in the Annual Report and accounts on the Group's internal controls and risk management framework;
- To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks. [Note: The Board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion despite aspects of that review being delegated to the Audit Committee.]

D. Authority and powers of the Audit Committee

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

- have authority to investigate any matter within its terms of reference;
- have full, free and unrestricted access to the Group's records, properties, personnel and other resources;
- have full and unrestricted access to any information regarding the Group;
- have direct communication channels with the external auditors and person(s) carrying out the internal audit function;
- be able to obtain independent professional or other advice; and
- be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Audit Committee, whenever deemed necessary.

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

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

E. Audit Committee Report

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

The Audit Committee Report shall include the following:-

- a) the composition of the Audit Committee, including the name, designation (indicating The Chairman) and directorship of the members (indicating whether the directors are independent or otherwise);
- b) the terms of reference of the Audit Committee;
- c) the number of Audit Committee meetings held during the financial year and details of attendance of each Audit Committee member;
- d) a summary of the activities of the Audit Committee in the discharge of its functions and duties for that financial year of the listed issuer; and
- e) the existence of an internal audit function or activity and where there is such a function or activity, a summary of the activities of the function or activity. Where such a function or activity does not exist, an explanation of the mechanisms that exist to enable the Audit Committee to discharge its functions effectively.

F. Meetings

- a) The quorum for an Audit Committee Meeting shall be at least two (2) members; the majority present must be Independent Directors.
- b) The Audit Committee shall meet at least five (5) times a year and such additional meetings as the Chairman shall decide.
- c) The External Auditor has the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Audit Committee when required to do so.
- d) The Chief Financial Officer and the Head of Internal Audit of the Group shall normally attend the meetings to assist in its deliberations and resolutions of matters raised. However, at least once a year, the Audit Committee shall meet with the External Auditors without the presence of the executive members of the Audit Committee.
- e) The Internal Auditors shall be in attendance at all meetings to present and discuss the audit reports and other related matters as well as the recommendations relating thereto and to follow-up on all relevant decisions made.
- f) The Company Secretary shall act as Secretary of the Audit Committee and shall be responsible, with the concurrence of the Chairman, for drawing up and circulating the agenda and the notice of meetings together with the supporting explanatory documentation to members prior to each meeting.



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

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

G. Internal Audit Department

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

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

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

SUMMARY OF ACTIVITIES

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

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

- Worked with management to set up the Internal Audit Function;
- Reviewed and approved the internal audit plan for the Group;
- Reviewed the internal audit reports for the Group;
- Reviewed the external audit reports for the Group with the external auditors;
- Reviewed and commented on the quarterly and annual financial results of the Group, taking note of changes in or implementation of major accounting policy changes; significant and unusual events; and compliance with accounting standards and other legal requirements;

- Reviewed related party transactions of the Group for compliance with the Listing Requirements of Bursa Malaysia and the appropriateness of such transactions before recommending them to the Board for its approval;
- Reviewed the procedures for securing the shareholders' mandate for Recurrent Related Party Transactions;
- Considered the reappointment of the external auditors for recommendation to the shareholders for their approval;
- Reviewed the Financial Statements of the Group for the financial year ended 30 June 2005; and
- Reviewed the preliminary risk assessment report and status of business continuity planning.

INTERNAL AUDIT FUNCTION AND RISK MANAGEMENT PROCESS

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

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

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

EMPLOYEE SHARE OPTION SCHEME

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

statement on internal control

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

BOARD ACCOUNTABILITY

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

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

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

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

INTEGRATING RISK MANAGEMENT WITH INTERNAL CONTROLS

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

A risk assessment exercise has been initiated during the financial year under review to identify the risks which may prevent the Group from achieving its business and corporate objectives. The risks identified and analysed are being

evaluated based on the likelihood of the risks materialising and the severity of their impact to the Group. This will allow for the prioritisation of risk mitigation and for the allocation of resources.

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

BUSINESS CONTINUITY MANAGEMENT

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

CONTROL STRUCTURE AND ENVIRONMENT

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

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

additional compliance information

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

1. STATUS OF UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

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

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

2. SHARE BUY-BACK

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

3. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES EXERCISED

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

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

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

5. SANCTIONS AND/OR PENALTIES

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

6. NON-AUDIT FEES

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

7. VARIATION IN RESULTS

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

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

The reconciliation of the deviation is shown as follows:-

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

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

1) Fewer than expected number of aircraft deployed

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

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

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

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

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

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

2) Savings in operational costs

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

3) Higher fuel costs

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

4) Deferred taxation

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

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

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

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

8. PROFIT GUARANTEE

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

9. MATERIAL CONTRACTS INVOLVING DIRECTORS AND MAJOR SHAREHOLDERS

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