
20. REPORTING ACCOUNTANTS' REPORT



The Board of Directors
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Main Terminal Building, KLIA
KL International Airport
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Selangor Darul Ehsan

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12 October 2004

Dear Sirs,

INTRODUCTION

This Accountants' Report ('the Report') has been prepared by an approved company auditor for the purpose of inclusion in the Prospectus in connection with the proposed listing of the entire issued and paid-up share capital of 2,335,031,080 ordinary shares of RM0.10 each in AirAsia Berhad ('AirAsia' or 'the Company') on the Main Board of Bursa Malaysia Securities Berhad ('Proposed Listing').

This Accountants' Report includes the following sections:

- A General information and introduction
- B Statutory Audit Reports
- C Historical financial statements of AirAsia

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

A GENERAL INFORMATION AND INTRODUCTION**(i) Background and principal activity of AirAsia Berhad**

AirAsia Sdn. Bhd. was incorporated in Malaysia under the Companies Act, 1965 on 20 December 1993 as a private limited liability company, incorporated and domiciled in Malaysia. The Company was incorporated as AirAsia Sdn. Bhd. and subsequently converted to AirAsia Berhad on 8 June 2004 as a public limited liability company. Subsequent to the Company's incorporation and further issues of shares, Hicom Holdings Berhad ('Hicom') held 99.25% and MOFAZ Air Sdn. Bhd. ('MOFAZ') held the remaining 0.75% of its shares.

In December 2001, Tune Air Sdn. Bhd. ('Tune Air') acquired the 99.25% shareholding in the Company from Hicom and became the new holding company of AirAsia. IDBIF Malaysia Investments Ltd, Crescent AirAsia Investments Ltd and Deucalion Capital II Limited subsequently acquired shares in the Company in July and August 2003.

The Redeemable Cumulative Preference Shares ('RCPS') were converted to ordinary shares of RM1.00 each on 24 May 2004. The current shareholdings in the Company after the conversion are as follows:

<u>Shareholders</u>	<u>Ordinary shares</u>	
	<u>No. of units</u>	
	<u>'000</u>	<u>%</u>
Tune Air	129,204	73.8
IDBIF Malaysia Investments Ltd	17,513	10.0
Crescent AirAsia Investments, Ltd	15,761	9.0
Deucalion Capital II Limited	12,259	7.0
MOFAZ	390	0.2
Anthony Francis Fernandes	*	*
Dato' Pahamin Bin Abdul Rajab	*	*
	<u>175,127</u>	<u>100.0</u>

* 1 ordinary share each.

The Company is principally engaged in the business of providing air transportation services. There were no significant changes in the principal activities of the Company during any of the periods presented in this Report.

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

25-5, Block H, Jalan PJU1/37
Dataran Prima
47301 Petaling Jaya
Selangor Darul Ehsan

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
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A GENERAL INFORMATION AND INTRODUCTION (CONTINUED)**(i) Background and principal activity of AirAsia Berhad (Continued)**

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

Lot N1, Level 4,
Main Terminal Building, KLIA
KL International Airport
64000 Sepang
Selangor Darul Ehsan

The year end of the Company was changed from 31 March to 30 June in 2002 to coincide with the year end of Tune Air.

The structure of the Company as at 30 September is described below.

(ii) AirAsia Group Structure as at 30 September 2004

As at 1 July 2004, the Company's subsidiaries are Crunchtime Culinary Services Sdn. Bhd. ('Crunchtime') and AAIL.

Crunchtime was incorporated on 16 October 2002 and commenced its activity in the provision of inflight meals. On 15 January 2003, the Company acquired 50.001% share of the issued and paid up capital in Crunchtime. Crunchtime holds 49% equity interest in Thai Crunch Time.

On 5 June 2004, the Company entered into a Subscription Agreement with AA International Ltd ('AAIL') for the subscription of 5,260,000 ordinary shares of USD1.00 in AAIL for a consideration of USD5,260,000 ('Proposed Subscription') to be satisfied by way of converting an existing loan of USD5,260,000 owing by AAIL to the Company. The Proposed Subscription was completed effectively 1 July 2004.

Following the completion of the transaction, AAIL became a 99.8% owned subsidiary company of the Company. As at the date of this Report, AAIL has a 100% owned subsidiary, AirAsia (Hong Kong) Limited ('AirAsia HK') and two associated companies, namely Thai AirAsia Co. Ltd. ('Thai AirAsia') and AirAsia Pte Ltd ('AAPL'). Thai AirAsia further holds 51% and 100% of equity interest in Thai Crunch Time Co. Ltd ('Thai Crunch Time') and Thai AirAsia (Hong Kong) Limited (Thai AirAsia HK) respectively. As a result, the Company's effective equity interest in Thai Crunch Time is 49.4% and it is accounted for as an associate.

The Company also subscribed for 100% equity interest in AirAsia (Mauritius) Limited and AirAsia Go Holiday Sdn Bhd (formerly Asas Layar Sdn Bhd) on 20 August 2004 and 6 August 2004 respectively upon its incorporation.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors
AIRASIA BERHAD
12 October 2004

B STATUTORY AUDIT REPORTS

The financial statements of the Company for the years ended 31 March 2000, 31 March 2001, 15 months period ended 30 June 2002 and the years ended 30 June 2003 and 30 June 2004 were prepared in accordance with applicable approved accounting standards in Malaysia ('MAAS') and were audited in accordance with approved auditing standards in Malaysia.

The financial information presented in this Report is based on the statutory financial statements of the Company, after making such adjustments as considered necessary as detailed in Note 32.

The financial statements of the Group and Company for the years ended 31 March 2000 and 31 March 2001, 15 months period ended 30 June 2002, year ended 30 June 2003 and 30 June 2004 were reported on without qualification.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA**Income Statements**

		Company					Group	
		15 months ended						
		Year ended 31 March		30 June	Year ended 30 June			
Note		2000	2001	2002	2003	2004	2003	2004
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	1	149,285	167,749	217,421	329,360	389,120	330,040	392,690
Cost of sales	2	(171,994)	(176,463)	(208,147)	(288,362)	(276,796)	(288,490)	(279,119)
Gross (loss)/profit		(22,709)	(8,714)	9,274	40,998	112,324	41,550	113,571
Sales and marketing expenses		(640)	(409)	(1,499)	(4,361)	(9,491)	(4,361)	(9,411)
Administration expenses	3	(2,862)	(3,523)	(7,936)	(22,546)	(32,993)	(23,061)	(34,351)
Other operating expenses		(2,573)	(2,048)	(1,445)	(3,726)	(12,866)	(3,758)	(13,054)
Other operating income		566	136	307	1,175	4,537	1,175	4,563
(Loss)/profit from operations	4	(28,218)	(14,558)	(1,299)	11,540	61,511	11,545	61,318
Finance costs	6	(3,075)	(4,559)	(308)	(75)	(3,124)	(84)	(3,131)
Share of losses of an associated company	11	0	0	0	0	0	0	(116)
(Loss)/profit before taxation		(31,293)	(19,117)	(1,607)	11,465	58,387	11,461	58,071
Taxation	7	(35)	(21)	(56)	7,375	(9,052)	7,375	(9,052)
(Loss)/profit after taxation		(31,328)	(19,138)	(1,663)	18,840	49,335	18,836	49,019
Minority interests		0	0	0	0	0	2	48
(Loss)/profit attributable to shareholders		(31,328)	(19,138)	(1,663)	18,840	49,335	18,838	49,067
(Loss)/earnings per share (sen)	8							
- Basic		(60.2)	(36.8)	(3.2)	36.2	64.6	36.2	64.3
- Diluted		(60.2)	(36.8)	(2.8)	11.7	28.3	11.7	28.1

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Balance Sheets**

	Note	Company						Group
		As at 31 March				As at 30 June		
		2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000
NON CURRENT ASSETS								
Property, plant and equipment	9	1,451	1,463	6,704	19,335	157,636	20,048	158,456
Investment in subsidiary company	10	0	0	0	50	50	0	0
Investment in an associated company	11	0	0	0	0	0	0	86
Other investments	12	0	0	0	6,379	108	6,379	108
Deferred expenditure		0	0	6,438	7,574	4,369	7,574	4,369
Deferred tax assets	13	0	0	0	7,500	0	7,500	0
		<u>1,451</u>	<u>1,463</u>	<u>13,142</u>	<u>40,838</u>	<u>162,163</u>	<u>41,501</u>	<u>163,019</u>
CURRENT ASSETS								
Deferred share issue expense	14	0	0	0	0	2,741	0	2,741
Inventories (at cost)		2,644	2,765	1,949	2,120	3,810	2,193	3,947
Trade and other receivables	15	9,122	10,510	22,576	46,349	113,590	46,437	113,947
Amount owing by holding company	16	0	0	0	688	0	688	0
Amount owing by a subsidiary company	17	0	0	0	441	328	0	0
Amount owing by an associated company		0	0	0	0	0	0	202
Deposits, bank and cash balances	18	13,538	34,525	13,769	33,420	66,084	33,503	66,147
		<u>25,304</u>	<u>47,800</u>	<u>38,294</u>	<u>83,018</u>	<u>186,553</u>	<u>82,821</u>	<u>186,984</u>
CURRENT LIABILITIES								
Trade and other payables	19	42,204	54,586	48,042	74,360	100,868	74,686	102,146
Hire purchase payables		85	85	10	70	110	85	128
Current tax liabilities		61	72	83	125	439	125	439
Amount owing to holding company	16	0	0	78	0	0	0	0
Amount owing to former holding company	20	1,641	1,831	0	0	0	0	0
Amount owing to former related companies	20	2,256	2,716	648	0	0	0	0
Amount owing to an associated company		0	0	0	0	0	0	202
Borrowings (secured)	21	2,200	2,200	0	0	47,728	0	47,728
		<u>48,447</u>	<u>61,490</u>	<u>48,861</u>	<u>74,555</u>	<u>149,145</u>	<u>74,896</u>	<u>150,643</u>
NET CURRENT (LIABILITIES)/ ASSETS		<u>(23,143)</u>	<u>(13,690)</u>	<u>(10,567)</u>	<u>8,463</u>	<u>37,408</u>	<u>7,925</u>	<u>36,341</u>
NON CURRENT LIABILITIES								
Deferred tax liabilities	13	0	0	0	0	1,113	0	1,113
Hire purchase payables		111	25	0	269	180	348	239
Loan from former holding company (unsecured)	22	64,037	92,726	0	0	0	0	0
Borrowings (secured)	21	0	0	0	0	47,728	0	47,728
		<u>64,148</u>	<u>92,751</u>	<u>0</u>	<u>269</u>	<u>49,021</u>	<u>348</u>	<u>49,080</u>
		<u>(85,840)</u>	<u>(104,978)</u>	<u>2,575</u>	<u>49,032</u>	<u>150,550</u>	<u>49,078</u>	<u>150,280</u>

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)

	Note	Company					Group	
		As at 31 March					As at 30 June	
		2000	2001	2002	2003	2004	2003	2004
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
CAPITAL AND RESERVES								
Share capital	23	52,070	52,070	161,286	161,286	175,127	161,286	175,127
Share application monies	23	0	0	0	27,617	0	27,617	0
Share premium	24	0	0	0	0	65,959	0	65,959
Accumulated losses		(137,910)	(157,048)	(158,711)	(139,871)	(90,536)	(139,873)	(90,806)
SHAREHOLDERS' EQUITY		(85,840)	(104,978)	2,575	49,032	150,550	49,030	150,280
Minority interest		0	0	0	0	0	48	0
		(85,840)	(104,978)	2,575	49,032	150,550	49,078	150,280

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Statements of changes in shareholders' equity**

Company	Issued and fully paid ordinary shares of RM1.00 each		RCPS*	Non-distributable		Distributable	Total
	Number of shares '000	Nominal value RM'000		Share premium RM'000	Share application monies RM'000	Accumulated losses RM'000	
At 1 April 1999	60,800	60,800	0	0	0	(106,582)	(45,782)
Call in arrears	(8,730)	(8,730)	0	0	0	0	(8,730)
Net loss	0	0	0	0	0	(31,328)	(31,328)
At 31 March 2000	52,070	52,070	0	0	0	(137,910)	(85,840)
Net loss	0	0	0	0	0	(19,138)	(19,138)
At 31 March 2001	52,070	52,070	0	0	0	(157,048)	(104,978)
RCPS issued during the year	0	0	109,216	0	0	0	109,216
Net loss	0	0	0	0	0	(1,663)	(1,663)
At 30 June 2002	52,070	52,070	109,216	0	0	(158,711)	2,575
Share application monies received	0	0	0	0	27,617	0	27,617
Net profit	0	0	0	0	0	18,840	18,840
At 30 June 2003	52,070	52,070	109,216	0	27,617	(139,871)	49,032
Conversion of RCPS	109,216	109,216	(109,216)	0	0	0	0
Issuance of shares	13,841	13,841	0	65,959	(27,617)	0	52,183
Net profit	0	0	0	0	0	49,335	49,335
At 30 June 2004	175,127	175,127	0	65,959	0	(90,536)	150,550
Group							
At 1 July 2002	52,070	52,070	109,216	0	0	(158,711)	2,575
Share application monies received	0	0	0	0	27,617	0	27,617
Net profit	0	0	0	0	0	18,838	18,838
At 30 June 2003	52,070	52,070	109,216	0	27,617	(139,873)	49,030
Conversion of RCPS	109,216	109,216	(109,216)	0	0	0	0
Issuance of shares	13,841	13,841	0	65,959	(27,617)	0	52,183
Net profit	0	0	0	0	0	49,067	49,067
At 30 June 2004	175,127	175,127	0	65,959	0	(90,806)	150,280

* Redeemable Cumulative Preference Shares of RM1.00 each.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Cash Flow Statements**

	<u>Company</u> <u>2004</u> RM'000	<u>Group</u> <u>2004</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit from operations before taxation	58,387	58,071
Adjustments:		
Interest expense	1,229	1,236
Amortisation of deferred expenditure	1,442	1,442
Depreciation of property, plant and equipment	11,293	11,481
Interest income	(1,569)	(1,569)
Write off of plant and equipment	0	12
Gain on disposal of investments	218	218
Provision for maintenance	15,375	15,375
	<u>86,375</u>	<u>86,266</u>
Changes in operating assets and liabilities:		
Increase in inventories	(1,690)	(1,754)
Increase in trade and other receivables	(66,694)	(67,279)
Increase in trade and other payables	10,435	11,503
	<u>28,426</u>	<u>28,736</u>
Cash generated from operations	28,426	28,736
Interest paid	(1,229)	(1,236)
Interest received	1,544	1,544
Tax paid	(125)	(125)
	<u>28,616</u>	<u>28,919</u>
Net cash from operating activities	28,616	28,919
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(149,594)	(149,901)
Net proceeds from disposal of investments	6,052	6,053
	<u>(143,542)</u>	<u>(143,848)</u>
Net cash used in investing activities	(143,542)	(143,848)

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
 AIRASIA BERHAD
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Cash Flow Statements (Continued)**

	<u>Note</u>	<u>Company</u> 2004 RM'000	<u>Group</u> 2004 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Fixed deposits pledged as securities	18	(6,597)	(6,597)
Proceeds from allotment of shares		52,183	52,183
Hire purchase instalments paid		(49)	(66)
Proceeds from borrowings		95,456	95,456
Net cash from financing activities		140,993	140,976
NET INCREASE FOR THE FINANCIAL YEAR		26,067	26,047
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		32,459	32,542
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	18	58,526	58,589

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention, except where otherwise stated in the summary of significant accounting policies below.

The financial statements comply with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with applicable approved accounting standards in Malaysia and the provisions of the Companies Act 1965, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported financial year. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

Significant accounting policies

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the consolidated financial statements presented in this Report.

(a) Group accounting**(i) Subsidiaries**

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Subsidiaries are consolidated using the acquisition method of accounting. At the date of acquisition, the fair value of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the cost of acquisition over the Group's share of the fair value of the identifiable net assets of the subsidiary acquired at acquisition date is reflected as goodwill or negative goodwill.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(a) Group accounting (Continued)****(i) Subsidiaries (Continued)**

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the invested entities. When the minorities' share of losses equals or exceeds their interest in the entities invested, the minority shareholders do not recognise further losses, unless the minority shareholders have incurred obligation or made payment on behalf of the entities invested.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill on acquisition and exchange differences which were not previously recognised in the consolidated income statement.

(ii) Associated companies

Associates are those corporations, partnerships or other entities enterprises in which the Group exercises significant influence, but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not the power to exercise control over those policies. Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising in the income statement the Group's share of the post acquisition results of associates and its share of post acquisition movements within reserves in reserves. The cumulative post acquisition movements are adjusted against the cost of the investment and includes goodwill on acquisition (net of accumulated amortisation). Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(a) Group accounting (Continued)****(iii) Jointly controlled entities**

Jointly controlled entities are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Group with one or more parties. The Group's interest in jointly controlled entities is accounted for in the consolidated financial statements by the equity method of accounting.

(b) Goodwill

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the separable net assets of the subsidiary at the date of acquisition. Negative goodwill represents the excess of the Group's share of the fair values of the separable assets of the subsidiary at the date of acquisition over the fair value of the purchase consideration.

Goodwill is stated net of negative goodwill and is retained in the consolidated balance sheet. The carrying value of the goodwill is reviewed annually and is written down for impairment where it is considered necessary. The impairment value of goodwill is taken to the consolidated income statement.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated under the straight-line method to write-off the cost of the assets over their estimated useful lives. The principal annual rates and for this purpose are:

	%
Furniture and fittings	20
Motor vehicles	20
Office equipment	20
Office renovation	20
Operating plant and ground equipment	20
Kitchen equipment	20
Aircraft spares	10
Hangar building	2
Aircraft	7 years
Aircraft fixtures and fittings	Useful life or, remaining lease term of aircraft, whichever is shorter

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The Board of Directors
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(c) Property, plant and equipment (Continued)**

Assets not yet in operation is stated at cost and is not depreciated until it is ready for its intended use.

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 airframes. 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 check or the remaining life of the aircraft.

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

At each balance sheet date, 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. Refer accounting policy note (d) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit/(loss) from operations.

(d) Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill are reviewed for impairment losses 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 net selling price 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.

Any impairment loss arising is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
 AIRASIA BERHAD
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(e) Maintenance and overhaul**Owned Aircraft

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 airframes. This cost, which can equate to a substantial proportion of the total aircraft cost, is amortised over the shorter of the period to the next check or the remaining life of the aircraft.

The cost of subsequent major airframe and engine maintenance checks is capitalised and amortised over the shorter of the period to the next check or the remaining life of the aircraft.

Leased Aircraft

The cost of major maintenance and overhaul expenses, which are obligations under the lease, is charged to the income statement throughout the period of the lease.

AirAsia has certain aircraft for which the lease commenced during a major overhaul cycle and for which AirAsia was obligated, under the terms of the lease, to pay the full amount of the overhaul cost for the first maintenance cycle, although AirAsia only leased the aircraft for a portion of that maintenance cycle. The element of the maintenance cost relating to periods prior to commencement of the lease is deferred and amortised over the operating lease period.

(f) Operating leases

Leases of assets where 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 incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease period.

(g) Inventories

Inventories comprising spares and consumables used internally for repairs and maintenance are stated at 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. In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(h) Receivables**

Receivables are carried at invoiced amount less an allowance for doubtful debts based on general and specific review of all outstanding amounts at the financial year end. Bad debts are written off during the financial year in which they are identified.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Share capital

Ordinary shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(k) Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown as a deduction, net of tax, in equity from proceeds.

(l) Dividends

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings. Upon the dividend becoming payable, it will be accounted for as a liability.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(m) Borrowings**

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

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 statement.

(n) Income taxes

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits, including withholding taxes payable by a foreign subsidiary, associate or joint venture on distributions of retained earnings to companies in the Group, and real property gains taxes payable on disposal of properties.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred tax.

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

Deferred tax assets and liabilities are set off when there is legally enforceable right to set off current tax assets against current tax liabilities and where the taxes relate to the same tax authority.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(o) Short term employee benefits**

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

(p) Defined contribution retirement plans

The Group pays contributions to publicly administered pension plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the group has no further payment obligations. The regular contributions constitute net periodic costs for the period in which they are due and as such are included in staff costs in the income statements.

(q) Revenue recognition

Scheduled passenger flight and chartered flight income are recognised upon the rendering of transportation services and where applicable, 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 includes only the gross inflows of economic benefits received and receivable by the Company. Cargo, freight and other related revenue are recognised upon the completion of services rendered and where applicable, net of discounts. Amount collected on behalf of governments or other regulatory bodies and direct-per passenger changes are excluded from revenue. The amounts are not economics benefits which flow to the Company.

Interest and rental income are recognised on an accruals basis.

(r) Foreign currencies**(i) Reporting currency**

The financial statements are presented in Ringgit Malaysia ('RM').

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(r) Foreign currencies (Continued)****(ii) Foreign entities**

The Group's foreign entities are those operations that are not an integral part of the operations of the Company. Income statements of foreign entities are translated into Ringgit Malaysia at average exchange rates for the period and the balance sheets are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the retranslation of the net investment in foreign entities and of borrowings that hedge such investments are taken to 'Currency translation differences' in shareholders' equity. On disposal of the foreign entity, such translation differences are recognised in the income statement as part of the gain or loss on disposal.

(iii) Foreign currency transactions and balances

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates prevailing of the transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Foreign currency monetary assets and liabilities are translated into Ringgit Malaysia at exchange rates prevailing at the balance sheet date, unless hedged by forward foreign exchange contracts in which case the rates specified in such forward contracts are used. Exchange differences arising from settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

(iv) Closing rates

The principal closing rates used in translation of foreign currency amounts to RM are as follows:

<u>Foreign currency</u>	<u>As at 31 March</u>		<u>As at 30 June</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	RM	RM	RM	RM	RM
1 United States Dollar ('USD')	3.80	3.80	3.80	3.80	3.80
Pound Sterling ('GBP')	*	5.50	5.80	6.33	6.50
Singapore Dollar ('SGD')	*	2.30	2.30	2.19	2.20
Thai Baht ('B\$')	*	*	*	*	0.10

* Not applicable

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Significant accounting policies (Continued)****(s) Financial instruments****(i) Description**

Financial instruments are recognised in the balance sheet when the Group and Company have become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group and Company have legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statement associated with each item.

(iii) Financial instruments not recognised on the balance sheet

The Group is a party to a financial instrument that comprise forward fuel contracts. These instruments are not recognised in the financial statements on inception. Gains and losses arising from forward fuel contracts are recognised in the income statement upon delivery of fuel.

(iv) Fair value estimation for disclosure purposes

In assessing the fair value of financial statements, the Group makes certain assumptions that are based on market conditions existing at each balance sheet date and applies the discounted cash flows method to discount the future cash flows to determine the fair value of the financial instruments.

The face values, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)



The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)

Significant accounting policies (Continued)

(s) Segment reporting

The Company presents its business segment information in the financial statements on a basis consistent with how the principal activities of the Group are structured, operated and reported.

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risk and returns that are different from those of components operating in other economic environments.

There are no business segments other than the provision of air transportation services. The Group's operations are conducted predominantly in Malaysia.

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Notes to the Financial Statements****1 Revenue**

	Company					Group	
	Year ended 31 March		15 months ended 30 June				Year ended 30 June
	2000	2001	2002	2003	2004	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Passenger seat sales	41,181	44,041	87,856	195,864	347,971	195,864	347,971
Chartered flight revenue	105,844	118,409	123,179	123,061	24,514	123,061	24,514
Other revenue	2,260	5,299	6,386	10,435	16,635	11,115	20,205
	<u>149,285</u>	<u>167,749</u>	<u>217,421</u>	<u>329,360</u>	<u>389,120</u>	<u>330,040</u>	<u>392,690</u>

2 Cost of sales

	Company					Group	
	Year ended 31 March		15 months ended 30 June				Year ended 30 June
	2000	2001	2002	2003	2004	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Aircraft fuel expenses	34,477	41,417	63,980	93,581	102,707	93,581	102,707
Aircraft operating lease expenses	68,898	72,858	74,492	78,986	42,790	78,986	42,790
Maintenance and overhaul expenses	19,598	17,828	13,804	55,876	73,778	55,876	73,778
Staff costs	8,248	8,340	10,626	25,496	48,403	25,496	48,403
User charges and station expenses	23,287	18,669	24,071	21,837	9,579	21,837	9,579
Others	17,486	17,351	21,174	12,586	(461)	12,714	1,862
	<u>171,994</u>	<u>176,463</u>	<u>208,147</u>	<u>288,362</u>	<u>276,796</u>	<u>288,490</u>	<u>279,119</u>

User charges and station expenses of the Group and Company primarily consist of ground handling fees, landing and parking charges, aeronautical charges and other airport charges.

Other cost of sales of the Group and Company is stated after deducting the insurance surcharges and administrative fee receivable from passengers amounting to RM27.4 million (2003: RM13.5 million).

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Notes to the Financial Statements (Continued)****3 Administration expenses**

	Company					Group	
	Year ended 31 March		15 months ended	Year ended 30 June		Year ended 30 June	
	2000	2001	30 June	2003	2004	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
General and administrative expenses	1,500	1,840	4,345	8,607	16,850	8,951	17,672
Staff costs	1,362	1,683	3,591	13,939	16,143	14,110	16,679
	<u>2,862</u>	<u>3,523</u>	<u>7,936</u>	<u>22,546</u>	<u>32,993</u>	<u>23,061</u>	<u>34,351</u>

4 (Loss)/profit from operations

The following items have been charged/(credited) in arriving at (loss)/profit from operations:

	Company					Group	
	Year ended 31 March		15 months ended	Year ended 30 June		Year ended 30 June	
	2000	2001	30 June	2003	2004	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Staff costs	9,610	10,023	14,214	39,435	64,547	39,606	65,724
Depreciation of property, plant and equipment	619	621	1,372	2,888	11,293	2,934	11,481
Plant and equipment written off	0	0	0	543	0	543	12
Gain on disposal of plant and equipment	(42)	0	(59)	(70)	0	(70)	0
Amortisation of deferred expenditure	0	0	750	1,325	1,442	1,325	1,442
Rental of building	584	242	782	1,307	1,774	1,316	1,774
Auditors' remuneration	23	23	38	36	80	38	90
Allowance for doubtful debts	934	2,478	663	297	2,862	297	2,862
Rental of equipment	0	182	83	339	111	339	111
Rental income	(118)	(8)	(17)	0	0	0	0
(Gain)/loss on disposal of investments	0	0	0	(338)	218	(338)	218
Interest income	(94)	(95)	(198)	(451)	(1,569)	(451)	(1,569)
Writeback of doubtful debts	0	(2,866)	0	0	(250)	0	(250)

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Notes to the Financial Statements (Continued)****4 (Loss)/profit from operations (Continued)**

Included in staff costs are contributions to the Malaysian national defined contribution plan, which are as follows:

	Company					Group	
	Year ended 31 March		15 months ended 30 June				Year ended 30 June
	2000	2001	2002	2003	2004	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Defined contribution plan	792	1,023	1,260	2,266	4,491	2,283	4,498

Malaysian law requires companies to make contribution of a fixed percentage of each employee's salary to a publicly administered defined contribution pension plan for the employee's retirement.

The number of employees on the Group's and Company's payrolls as at the end of each years/period are as follows:

	Company					Group	
	As at 31 March					As at 30 June	
	2000	2001	2002	2003	2004	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Total employees	236	241	322	616	1,333	648	1,382

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
12 October 2004

C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Notes to the Financial Statements (Continued)****5 Directors' remuneration**

The Directors of the Company in office during the period reported in this Report are as follows:

<u>Name</u>	<u>Date of appointment</u>	<u>Date of resignation/retired</u>
<u>Director</u>		
Dato' Pahamin Bin Ab. Rajab	12 December 2001	
Anthony Francis Fernandes	12 December 2001	
Abdel Aziz @ Abdul Aziz Bin Abu Bakar	12 December 2001	
Kamarudin Bin Meranun	12 December 2001	
Sami Ali A. Sindi	18 July 2003	
Mumtaz Khan	18 July 2003	
John Francis Tierney	18 July 2003	
Conor Mc Carthy	21 June 2004	
Y. Bhg. Dato' Tik bin Mustaffa	27 January 1996	13 December 2001
Tuan Haji Faisal @ Ibrahim bin Siraj	28 April 1997	13 December 2001
Tuan Haji Mohamed Fauzy bin Abdul Hamid	28 January 1994	27 December 2002
Tuan Haji Ab Rahim bin Ab Rahman	28 August 1996	27 December 2002
Y. Bhg. Dato' Maznah bte Abdul Jalil	7 May 1996	28 September 1999
Y. Bhg. Tan Sri Dato' Seri Mohd. Saleh bin Sulong	24 March 1997	28 September 1999
Ab Rashid bin Ab Rahim	28 September 1999	13 December 2001
Kanesan a/l Velupillai	28 September 1999	13 December 2001

Alternate director

Adeeb Ahmed	22 December 2003	
(Alternate to Mumtaz Khan)		
Richard Todd Scanlon	22 December 2003	
(Alternate to Sami Ali A. Sindi)		
Brian Douglas Courtney	9 March 2004	
(Alternate to John Francis Tierney)		
Mohamad Shukry Bin Abdul Hamid	20 June 1994	27 December 2002
(Alternate to Tuan Haji Mohamed Fauzy Bin Abdul Hamid)		
Mohd. Nazri Bin Mahajar	28 April 1997	13 December 2001
(Alternate to Y. Bhg. Dato' Tik Bin Mustaffa)		
Puan Sharifah Halimah bte Syed Ahmed	28 April 1997	28 September 1999
(Alternate to Y. Bhg. Dato' Maznah bte Abdul Jalil)		
Y. Bhg. Datuk Abu Samah bin Bachik	24 April 1997	28 September 1999
(Alternate to Y. Bhg. Tan Sri Dato' Seri Mohd. Saleh bin Sulong)		

20. REPORTING ACCOUNTANTS' REPORT (Cont'd)

The Board of Directors
AIRASIA BERHAD
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C HISTORICAL FINANCIAL STATEMENTS OF AIRASIA (CONTINUED)**Notes to the Financial Statements (Continued)****5 Directors' remuneration (Continued)**

The aggregate amount of emoluments received by Directors of the Company during the financial years/period ended are as follows:

	Company					Group	
	Year ended 31 March		15 months ended 30 June 2002	Year ended 30 June		Year ended 30 June	
	2000	2001	2002	2003	2004	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Executive Directors							
Salaries and emoluments	0	0	560	1,085	2,774	1,085	2,774

6 Finance costs

Interest costs	237	251	213	54	1,229	63	1,236
Interest on loan from former holding company	2,838	4,308	0	0	0	0	0
Bank commission	0	0	0	0	399	0	399
Bank facilities charges	0	0	0	68	801	68	801
Unrealised foreign exchange (gain)/loss	0	0	0	(93)	462	(93)	462
Others	0	0	95	46	233	46	233
	<u>3,075</u>	<u>4,559</u>	<u>308</u>	<u>75</u>	<u>3,124</u>	<u>84</u>	<u>3,131</u>

7 Taxation

Income tax - Malaysia							
- current year	61	21	50	125	439	125	439
- prior year	(26)	0	6	0	0	0	0
	<u>35</u>	<u>21</u>	<u>56</u>	<u>125</u>	<u>439</u>	<u>125</u>	<u>439</u>
Deferred tax (note 13)	0	0	0	(7,500)	8,613	(7,500)	8,613
	<u>35</u>	<u>21</u>	<u>56</u>	<u>(7,375)</u>	<u>9,052</u>	<u>(7,375)</u>	<u>9,052</u>