700,509,400 Shares

AirAsia Berhad

(incorporated in Malaysia with limited liability under the Companies Act, 1965 — Company No. 284669-W)

700,509,400 ordinary shares of nominal value of RM0.10 are being offered in the Initial Public Offering, of which 583,757,800 new shares (the ''Issue Shares'') are being issued and offered by AirAsia Berhad (the ''Company'') and 116,751,600 existing shares (the ''Offer Shares'', together with the Issue Shares, the ''Shares'') are being offered by Tune Air Sdn Bhd (''Tune Air''), IDBIF Malaysia Investments Ltd (''IDBIF''), Crescent Air Asia Investments, Ltd (''CAAL'') and Deucalion Capital II Limited (''DCL'') (together, the ''Selling Shareholders''). The Company will not receive any proceeds from the offer and placement of the Offer Shares by the Selling Shareholders.

The Initial Public Offering consists of an institutional offering (the ''Institutional Offering'') and a Malaysian retail offering (the ''Malaysian Retail Offering''). 560,407,500 Shares are being offered by the Company and the Selling Shareholders in the Institutional Offering, of which (i) 392,285,250 Shares are being offered to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act of 1933, as amended (the ''Securities Act'') and outside of the United States and Malaysia in reliance on Regulation S under the Securities Act (the ''International Institutional Offering'') and (ii) 168,122,250 Shares are being offered to Malaysian institutional and selected investors in Malaysia at the price of the Shares offered hereby (the ''Malaysian Institutional Offering''). The Company is concurrently offering 140,101,900 Shares in the Malaysian Retail Offering to eligible employees and directors of the Company and persons who have contributed to the success of the Company and to Malaysian citizens, companies, societies, co-operatives and institutions, at RM1.1625 per Share.

Prior to the offerings described above, there has been no trading market for the ordinary shares of the Company within or outside Malaysia. Application has been made to Bursa Malaysia Securities Berhad (''Bursa Securities''), formerly known as the Malaysia Securities Exchange Berhad, for the admission of the Shares to the Official List of the Main Board of Bursa Securities (''Admission''). See ''Summary — The Offering — Initial Public Offering''.

Investing in the Shares involves risks. See "Risk Factors" on page 19.

Delivery of the Shares in book entry form will be made through the Central Depository System (''CDS'') in Kuala Lumpur against payment on or about November 17, 2004.

RM1.25 per Share

The Shares have not been and will not be registered under the Securities Act. The Shares may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain non-U.S. persons in transactions outside the United States in reliance on Regulation S under the Securities Act. Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Shares are not transferable except in accordance with the restrictions described under "Transfer Restrictions" and "Plan of Distribution".

Sole Bookrunner and Sole Lead Manager for the International Institutional Offering

Credit Suisse First Boston

Co-Lead Managers

CLSA Asia-Pacific Markets **DBS Bank Ltd**

International Financial Adviser to the Company

Citigroup

The date of this confidential offering circular is October 29, 2004.

THIS OFFERING CIRCULAR IS NOT FOR DISTRIBUTION IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, INTO MALAYSIA.

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This Offering Circular is confidential and is being furnished by AirAsia Berhad and the Selling Shareholders in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling prospective purchasers to consider the purchase of the ordinary shares, of nominal value of RM0.10 each, of the Company described herein. The information contained in this Offering Circular has been provided by the Company, the Selling Shareholders and other sources identified herein. No representation or warranty, express or implied, is made by the International Purchasers as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the International Purchasers. Except as set forth below, any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares offered hereby is prohibited. Each offeree of the Shares, by accepting delivery of this Offering Circular, agrees to the foregoing.

This Offering Circular has been seen and approved by the directors of the Company (the "Directors") and they accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement herein false or misleading.

No person has been authorized to give any information or to make any representation other than those contained in this Offering Circular, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, the Selling Shareholders or the International Purchasers. This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Company, the Selling Shareholders, or the International Purchasers to subscribe for, or purchase, any of the Shares and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorized or is unlawful. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

This Offering Circular has not been and will not be registered with the Securities Commission of Malaysia (the "SC") under the Securities Commission Act, 1993 (the "SCA"). Accordingly, this Offering Circular may not be distributed or circulated, whether directly or indirectly, in Malaysia.

The securities offered hereby have not been registered with or recommended by any United States federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

The distribution of this Offering Circular, the International Institutional Offering, the Malaysian Institutional Offering and the Malaysian Retail Offering and sale of the Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the International Purchasers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering and sale of the Shares, see "Transfer Restrictions" and "Plan of Distribution". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Shares in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO,

ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEABILITY OF CIVIL LIABILITIES

The Company and Tune Air are incorporated with limited liability in Malaysia, IDBIF is incorporated in Labuan, and CAAL and DCL are incorporated in the Cayman Islands, British West Indies. All of the Company's management and auditors, and certain of the Company's directors and other parties named in this Offering Circular, reside outside the United States. All or a substantial portion of the assets of the Company and the Selling Shareholders and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States on such persons, or to enforce in the United States any judgment obtained in the United States courts against the Company, the Selling Shareholders or such persons, including judgments based upon the civil liability provisions of the securities laws of the United States or any State or territory of the United States.

The Company has been advised by its Malaysian counsel, Logan Sabapathy & Co, that judgments of foreign courts are not directly enforceable in Malaysia. While there is a statutory scheme between Malaysia and certain common law countries which makes certain foreign judgments enforceable in Malaysia by way of registration, there are no such reciprocal enforcement arrangements between the United States and Malaysia. However, judgments obtained against the Company or Tune Air in a United States court in respect of any sum payable by any of the Company or Tune Air would be recognized and enforced by the courts of Malaysia in an action brought to enforce such judgment without a re-examination of the issues in dispute only so long as the judgment: (1) is not inconsistent with public policy in Malaysia; (2) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (3) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (4) was of a court of competent jurisdiction of such jurisdiction; (5) has not been wholly satisfied; (6) is final and conclusive between the parties; and (7) is for a fixed sum.

The Company has been advised by its Cayman Islands counsel, Maples and Calder, that although there is no statutory enforcement in the Cayman Islands of foreign money order judgments (other than in respect of judgments of Australian courts which may be enforced by registration under the Foreign Judgements Reciprocal Enforcement Law (1996 Revision)), the courts of the Cayman Islands will recognize and enforce a foreign money order judgment of a court of competent jurisdiction, based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given, and provided such judgment is final and conclusive, for a liquidated sum not in respect of taxes or a fine or penalty, and which was not obtained in a manner, and is not of a kind the enforcement of which is, contrary to the public policy of the Cayman Islands. A Cayman Islands' court may stay proceedings if concurrent proceedings are being brought elsewhere.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Company, its consolidated subsidiaries, Thai AirAsia Co., Ltd ("Thai AirAsia") and its subsidiaries, and Thai Crunch Time Co., Ltd ("Thai Crunch Time") (together, the "Group"), the Group's operations, results of operations, financial position, business strategy and the plans and objectives of Management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Such forward-looking statements reflect Management's current views with respect to future events and are not a guarantee of future performance. Forward-looking statements can be identified by the use of forward-looking terminology such as the words "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast" or similar expressions and include all statements that are not historical facts. Such forward-looking statements include, without limitation, statements relating to:

- the Group's future overall business development and economic performance;
- the Group's estimated financial information regarding, and the future development and economic performance of, its business;
- the Group's future earnings, cash flow and liquidity;
- the Group's potential growth opportunities, including its route expansion plans and potential joint ventures;
- the amount and nature of future fleet growth (including the proposed acquisition of up to 80 new aircraft from Airbus or Boeing consisting of 40 purchase obligations and 40 purchase options), airport investment and other capital expenditures required by the Group;
- the Group's financing plans, business strategy, competitive position and the effects of competition;
- the airline industry environment, including future prices and demand for air travel and future prices and supply of aircraft, jet fuel and spare parts; and
- the regulatory environment and the effects of future regulation, including the liberalization of the commercial aviation industry in Southeast Asia and the effects of future regulation.

Actual results may differ materially from information contained in such forward-looking statements as a result of a number of factors, including, without limitation:

- war in the Middle East or elsewhere or further acts of international terrorism;
- increases in maintenance costs, fuel prices and insurance premiums;
- increase in competition;
- continued availability of capital and financing at acceptable cost;
- changes in interest rates and foreign exchange rates;
- changes in taxes and duties;
- changes in the Group's fixed obligations;
- the extension of maintenance and other contractual arrangements on acceptable terms;
- general economic and business conditions, political, economic and social developments and demand for air services in the markets in which the Group operates;
- changes in dependence on the Malaysian and Southeast Asian markets;
- the impact of severe acute respiratory syndrome (commonly known as "SARS") or any similar outbreaks;
- cyclical and seasonal fluctuations in the Group's results of operations;

- technical difficulties in the operation of the Group's aircraft reducing expected levels of output and efficiency;
- delays, cost overruns, shortages in spare parts or labor or problems with expansion plans;
- increased capital expenditures required for aircraft maintenance and expansion plans;
- changes in laws and regulations and future regulatory restrictions in the airline industry; and
- other factors beyond the Group's control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed elsewhere in "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Industry Overview". The Company cannot give any assurance that the forward-looking statements made in this Offering Circular will be realized. Such forward-looking statements are made only as at the date of this Offering Circular. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this Offering Circular to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

THE CONSOLIDATED PROFIT FORECAST INCLUDED HEREIN HAS BEEN INCLUDED IN THE PROSPECTUS CIRCULATED TO INVESTORS IN CONNECTION WITH THE MALAYSIAN RETAIL OFFERING (THE "MALAYSIAN PROSPECTUS") PURSUANT TO MALAYSIAN LAW FOR THE BENEFIT OF THE INVESTORS IN THE MALAYSIAN RETAIL OFFERING AND MALAYSIAN INVESTORS IN THE MALAYSIAN INSTITUTIONAL OFFERING. NEITHER THE CONSOLIDATED PROFIT FORECAST NOR THE REVIEW OF SUCH FORECAST SHOULD BE RELIED UPON BY OTHER INVESTORS UNDER THE INTERNATIONAL INSTITUTIONAL OFFERING.

THE SC HAS APPROVED THE LISTING OF THE COMPANY ON THE MAIN BOARD OF BURSA SECURITIES. HOWEVER, THE APPROVAL OF THE SC SHALL NOT BE TAKEN TO INDICATE THAT THE SC RECOMMENDS THE INITIAL PUBLIC OFFERING. THE SC SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF THE COMPANY AND ASSUMES NO RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT, MAKES NO REPRESENTATION AS TO THE ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIM ANY LIABILITIES WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS OFFERING CIRCULAR. **PROSPECTIVE INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT IN THE COMPANY. IN CONSIDERING THE INVESTMENT, PROSPECTIVE INVESTORS WHO ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, SHOULD CONSULT THEIR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.**

BURSA MALAYSIA SECURITIES BERHAD (FORMERLY KNOWN AS MALAYSIA SECURITIES EXCHANGE BERHAD) ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY OF STATEMENTS MADE OR OPINIONS EXPRESSED IN THIS OFFERING CIRCULAR. ADMISSION TO THE OFFICIAL LIST OF BURSA SECURITIES IS NOT TO BE TAKEN AS AN INDICATION OF THE MERITS OF THE COMPANY OR OF ITS SHARES.

PROSPECTIVE INVESTORS SHOULD NOTE THAT ANY AGREEMENT OF THE INITIAL PURCHASERS NAMED HEREIN TO UNDERWRITE THE INITIAL PUBLIC OFFERING IS NOT TO BE TAKEN AS AN INDICATION OF THE MERITS OF THE SHARES BEING OFFERED.

CONTENTS

INTRODUCTION

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, Bursa Securities has prescribed the Shares as a prescribed security. In consequence thereof, the Shares offered through this Offering Circular will be deposited directly with Bursa Malaysia Depository Sdn. Bhd. ("BMD") and any dealings in these shares will be carried out in accordance with the aforesaid Act and the rules of BMD.

On September 24, 2004, approval was obtained from the SC in respect of the listing of the Company on the Main Board of Bursa Securities. The approval of the SC shall not be taken to indicate that the SC recommends the Initial Public Offering and the listing of the Company on the Bursa Securities. The SC shall not be liable for any non-disclosure on the part of the Company and assumes no responsibility for the contents of this Offering Circular, and makes no representation as to the accuracy or completeness and expressly disclaims any liabilities whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. **Prospective Investors should rely on their own evaluation to assess the merits and risks of the investment in the Company. In considering the investment, investors who are in any doubt as to the action to be taken should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.**

An application has been made to Bursa Securities for Admission and for dealing in and quotation for the entire issued and fully paid-up share capital of the Company, including the Shares which are the subject of this Offering Circular, on the Main Board of Bursa Securities.

Acceptance of the applications in the Malaysian Retail Offering will be conditional upon permission being granted to deal in and quotation for all the issued shares of the Company, including the Shares, within six weeks from the date of the Malaysian Prospectus, which is dated October 20, 2004, or such longer period as may be specified by the SC, provided that the Company is notified by or on behalf of Bursa Securities within the six weeks or such longer period as may be specified by the SC. Monies paid in respect of any application accepted will be returned without interest if the said permission is not granted or revoked.

Pursuant to Section 52(2) of the SCA, in the event permission has not been granted to deal in and quotation for all the issued shares of the Company within six weeks or such longer period as may be specified by the SC, the Company will withdraw its application for Admission and all monies paid in respect of any application accepted will be returned without interest and if such monies are not returned within 14 days after the Company becomes liable to do so, then, in addition to the liability of the Company, the officers of the Company shall be jointly and severally liable to return such monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC upon expiration of that period, subject to the provisions of Section 52(4) of the SCA. Please see "Risk Factors" for risks relating to delay or failure in trading of the Shares.

The completion of the Malaysian Retail Offering, the International Institutional Offering and the Malaysian Institutional Offering are inter-conditional and subject to all Issue Shares and Offer Shares under the Initial Public Offering having been fully subscribed for.

If the Malaysian Retail Offering is not completed, monies paid in respect of any application for Shares will be returned to applicants without interest. If such monies are not returned within 14 days after the Company becomes liable to do so, then the officers of the Company shall be jointly and severally liable to return such monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC upon expiration of that period. For further details, see "Details of the Initial Public Offering".

The Company needs to have at least 25% of the issued and paid-up share capital in the hands of public shareholders and a minimum of 1,000 public shareholders holding not less than 100 shares each upon completion of the Initial Public Offering and at the point of listing. The Company is expected to achieve this at the point of listing. In the event that the above requirement is not met, the Company may not be permitted to proceed with its listing on the Main Board of Bursa Securities. In the event thereof, monies paid in respect of all applications will be returned without interest and if such monies are not returned within 14 days after the Company becomes liable to do so, then the officers of the Company shall be jointly and severally liable to return such monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC upon expiration of that period. For further details, see "Details of the Initial Public Offering".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to the "Company" in this Offering Circular are to AirAsia Berhad, all references to "AirAsia" herein are to the Company and its consolidated subsidiaries and all references to the "Group" are to AirAsia, Thai AirAsia and its subsidiaries and Thai Crunch Time. Unless the context otherwise requires, references to "Management" are to the directors, executive officers and senior management team of AirAsia as at the date of this Offering Circular, and statements in this Offering Circular as to beliefs, expectations, estimates and opinions of AirAsia are those of AirAsia's Management.

Unless otherwise indicated, operating data in this Offering Circular is given as at June 30, 2004.

In this Offering Circular, references to the "Government" are to the Government of Malaysia; references to "Ringgit", "Malaysian Ringgit", "RM" and "sen" are to the lawful currency of Malaysia; references to "U.S. dollars" and "U.S.$" are to the lawful currency of the United States of America; references to "Baht" are to Thai Baht, the lawful currency of Thailand; references to "Rupiah" and "Rp." are to Indonesia Rupiah, the lawful currency of Indonesia; references to "Singapore dollars" and "S$" are to the lawful currency of the Republic of Singapore; and references to "GBP" are to the lawful currency of the United Kingdom. Certain acronyms, technical terms and other abbreviations used herein are defined in "Definitions" appearing as Appendix A to this Offering Circular. Words denoting the singular only shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to persons shall include companies and corporations.

Solely for the convenience of the reader, this Offering Circular contains translations of certain currencies into U.S. dollars and vice versa. Unless otherwise indicated in this Offering Circular, any amounts translated from Malaysian Ringgit into U.S. dollars and vice versa are translated at the prevailing fixed rate of exchange of U.S.$1.00 to RM3.80, the reference rate set by Bank Negara Malaysia in September 1998. Such translations may differ from translations of amounts which appear in other disclosure documents of the Company which use amounts translated at a different exchange rate. No representation is made that the Malaysian Ringgit or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Malaysian Ringgit as the case may be, at any particular rate or at all. See "Exchange Rates".

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

AirAsia's financial statements are prepared in accordance with applicable Malaysian approved accounting standards ("MAAS"), which differ in certain significant respects from generally accepted accounting principles in certain other countries. Certain significant differences between MAAS and generally accepted accounting principles in the United States ("U.S. GAAP") as they relate to AirAsia are described herein under "Summary of Certain Differences between MAAS and U.S. GAAP".

This Offering Circular includes statistical data provided by AirAsia and various third parties and cites third-party projections regarding growth and performance of the industry in which the Group operates. This data is taken or derived from information published by industry sources and from the Group's internal data. In each such case, the source is given in this Offering Circular, provided that where no source is given, it can be assumed that the information originates from the Group. In particular, certain information in this Offering Circular is extracted or derived from the report prepared by The S-A-P Group LLC ("S-A-P"). The Company believes that the statistical data and projections cited in this Offering Circular are useful in helping prospective investors understand the major trends in the industry in which the Group operates. However, none of the Company, the Selling Shareholders or the International Purchasers (as defined herein) have independently verified these figures. Neither the Company nor the International Purchasers make any representation as to the correctness, accuracy or completeness of such data and accordingly prospective investors should not place undue reliance on the statistical data cited in this Offering Circular. Similarly, third-party projections, including S-A-P's projections, cited in this Offering Circular are subject to significant uncertainties that could cause actual data to differ materially from the projected figures. No assurances are or can be given that the estimated figures will be achieved, and prospective investors should not place undue reliance on the third-party projections, including S-A-P's projections, cited in this Offering Circular.

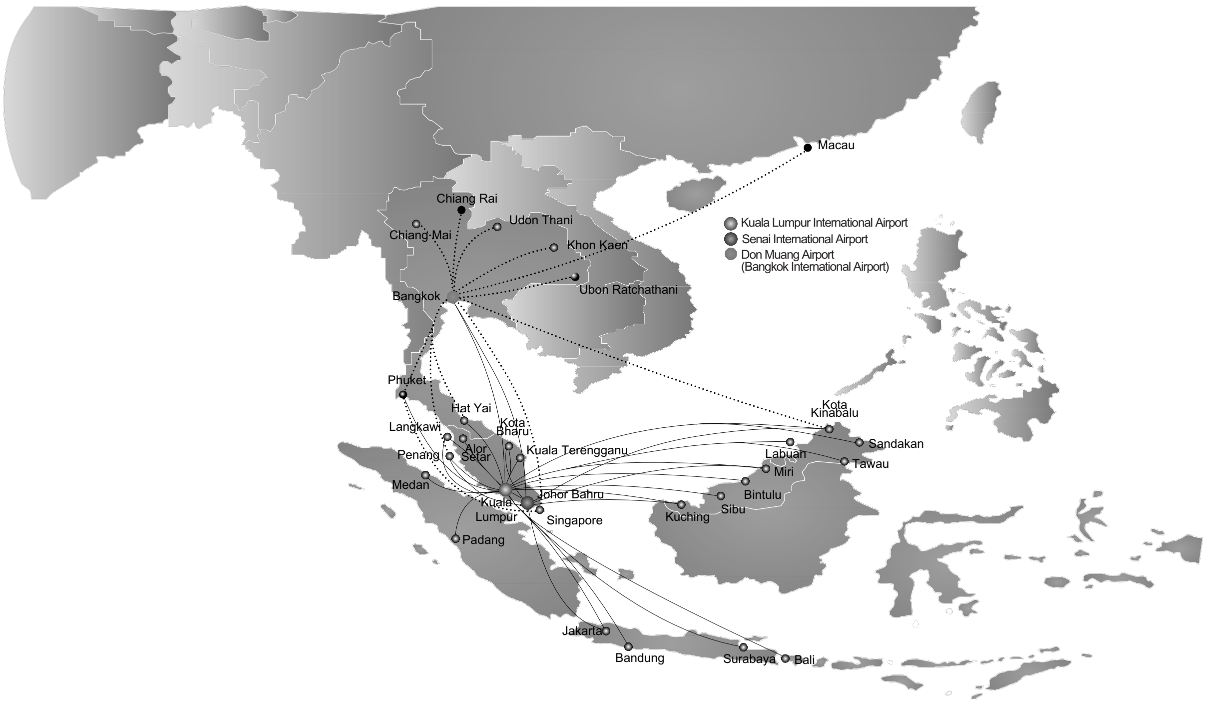
The information on the Group's websites, any website of any of the Selling Shareholders or any website directly or indirectly linked to such websites is not incorporated by reference into this Offering Circular and should not be relied on.

SUMMARY

This summary highlights selected information from this Offering Circular and may not contain all of the information that may be important to prospective investors. Prospective investors should read this Offering Circular, including AirAsia's consolidated financial statements and related notes, in its entirety before making an investment decision regarding the Shares. Prospective investors are advised to read the section of this Offering Circular entitled "Risk Factors" for an understanding of the risks associated with the purchase of the Shares.

Overview

AirAsia is a leading low-cost carrier in Southeast Asia. The Group focuses on providing high-frequency services on short-haul, point-to-point domestic and international routes. AirAsia implemented the low-cost carrier business model in Southeast Asia when it was re-launched as a low-cost carrier following the acquisition of the Company by Tune Air in December 2001. The Group is the only regional carrier to operate and have hubs in two domestic markets and have international routes originating from two countries. Currently, AirAsia operates from two hubs in Malaysia, Kuala Lumpur International Airport ("KLIA") and Senai International Airport in Johor Bahru ("Senai"), while Thai AirAsia operates from Don Muang International Airport in Bangkok ("DMA").



The Group is one of the largest low-cost carriers in Southeast Asia, with a fleet of 24 aircraft (of which 17 aircraft are operated by AirAsia, five aircraft are leased to and operated by Thai AirAsia and two aircraft are expected to be in operation (one in Malaysia and one in Thailand) by the beginning of November 2004). The Group intends to increase its fleet size to 36 aircraft by June 30, 2005, at which time AirAsia expects that it will operate 25 aircraft and Thai AirAsia will lease from AirAsia and operate 11 aircraft. In addition, AirAsia is currently considering acquiring up to 80 new aircraft from Airbus S.A.S. ("Airbus") or Boeing Inc. ("Boeing") consisting of 40 purchase obligations and 40 purchase options (the "Proposed Acquisition"). If it proceeds with the Proposed Acquisition, AirAsia expects that these aircraft would be delivered over a period of several years, commencing as early as January 2006. See "Business — AirAsia's Operations — Fleet — Future Plans".

The Group's strategy is to target markets within a three-and-a-half hour flight time from its hubs. This strategy gives it access to Southeast Asia's population of approximately 500 million people. AirAsia believes that the growing population in Malaysia (approximately 24 million people), Thailand (approximately 62 million people) and Indonesia (approximately 212 million people) provides an attractive market for the Group to stimulate air travel among a population that previously could not afford to travel by air or lives in areas not serviced by other airlines.

AirAsia's cost per ASK of RM0.094 (U.S.$0.025), for the year ended June 30, 2004, was among the lowest globally. AirAsia's low costs, low fares, strong brand and marketing, reliable service and first mover advantage have enabled it to significantly expand its operations. AirAsia's passenger volumes grew by approximately 91.7% from approximately 1.5 million guests for the year ended June 30, 2003 to approximately 2.8 million guests for the year ended June 30, 2004. Thai AirAsia has been operational since February 2004 and has seen passenger volumes increase from approximately 49,000 guests for the month of February 2004 to approximately 100,500 guests for the month of June 2004.

AirAsia has also achieved strong growth in revenue from passenger seat sales since December 2001. Revenue from passenger seat sales increased by 122.9% from RM87.9 million for the 15-months ended June 30, 2002 to RM195.9 million for the year ended June 30, 2003 and continued to increase by 77.7% to RM348.0 million for the year ended June 30, 2004. Similarly, the Group's fleet size grew from three aircraft as at June 30, 2002 to seven aircraft as at June 30, 2003 and 17 aircraft as at June 30, 2004. As at the date of this Offering Circular, the Group's fleet size had increased to 24 aircraft. AirAsia also achieved strong EBITDAR margins of 28.7% and 29.8% for the years ended June 30, 2003 and 2004, respectively.

AirAsia has been able to achieve this success during an extraordinarily difficult period for the airline industry caused by, among other things, the adverse effects of terrorist attacks, the wars in Afghanistan and Iraq, SARS, and rising fuel prices and insurance premiums. Its success is also notable given that since its inception, AirAsia has competed against a strong incumbent operator with significantly greater financial resources.

Through Thai AirAsia, a low-cost carrier operated as a joint venture with Shin Corporation Public Company Limited ("Shin Corporation"), AirAsia operates domestically and internationally out of Thailand. As a result of the encouraging performance of Thai AirAsia to date and the favorable indications of interest generated in other regional markets, AirAsia plans to pursue opportunities to selectively implement its joint venture business model in other regional markets and develop the Group into a carrier serving some of Asia's most attractive domestic and international markets. For example, AirAsia is considering launching a joint venture in Indonesia. See "Business — AirAsia's Operations — Route Network — Future Plans".

AirAsia has an experienced and dynamic senior management team. Most of its senior management team has been with the Company since it commenced operations as a low-cost carrier in January 2002. AirAsia is led by Tony Fernandes, its Group Chief Executive Officer, whose experience includes a successful career in the music industry (most recently as Vice President, ASEAN at Warner Music South East Asia). Conor Mc Carthy, a non-executive Director of the Company and the former Director of Group Operations of Ryanair, has also been integral to AirAsia's success. In addition, AirAsia's senior management team includes several personnel with extensive experience in the Malaysian and international airline industry.

To achieve AirAsia's plans, its senior management has formulated several strategies, the principal components of which are to stimulate demand by offering low fares, further expand the Group's operations within Asia and increase frequencies on the Group's most profitable routes, continue to minimize the Group's operating costs, invest in and enhance AirAsia's brand, continue to focus on customer service, and optimize and develop new revenue streams. The Initial Public Offering is intended to further strengthen the Group's financial position. As it expands its operations, the Group will seek to minimize costs by leveraging its economies of scale to negotiate better terms with its suppliers and with the airports at which it operates.

Competitive Strengths

AirAsia believes that the Group's key business strengths are as follows:

Low Cost Operations

For the year ended June 30, 2004, AirAsia's cost per ASK of RM0.094 (U.S.$0.025) was among the lowest globally. AirAsia has achieved significant cost reductions through the following:

- *Single-class, no frills service.* The Group operates a single-class service with no amenities such as complimentary in-flight meals and entertainment, loyalty programs and airport lounges. The Group's seating configuration maximizes seating capacity by fitting 148 seats in its Boeing 737-300 aircraft (compared to the passenger seat capacity of 132 for typical Boeing 737-300 aircraft with a two-class configuration).

- *High aircraft utilization and efficient operations.* The Group uses its aircraft and staff efficiently. In general, the Group is able to make more round trips per aircraft per day because it operates point-to-point services and maintains low turnaround times. The Group streamlines administrative functions by hiring employees who are able to perform various roles.
- *Low fixed costs.* AirAsia has negotiated lower lease charges for the Group's aircraft, lower rates for long-term maintenance contracts and lower airport fees. AirAsia's high safety and maintenance standards have allowed it to procure favorable rates on its insurance policies.
- *Low distribution costs.* To encourage more Internet bookings, the Group offers its lowest fares through the Internet. Bookings on the Internet have increased from 5% of reservations made when online reservations first became available in May 2002 to approximately 50% in August 2004. AirAsia employs a fully ticketless system, which saves administrative costs and related expenses.
- *Single aircraft type.* Operating a fleet of similar aircraft leads to increased cost savings through simplifying maintenance and reducing spare parts inventory requirements. In the event AirAsia proceeds with the Proposed Acquisition and acquires additional aircraft of a different type than the Boeing 737-300, AirAsia expects that such aircraft would be delivered over a period of several years, commencing as early as January 2006, and the Group's entire fleet would gradually shift to the new aircraft type.
- *Maximizing the benefits of regional media coverage.* Because AirAsia has successfully implemented the low-cost carrier model in Southeast Asia, it receives regular coverage from regional media outlets. AirAsia utilizes such opportunities to promote and increase its brand awareness without incurring additional sales and marketing expenses.

Proven Business Model and Profitable Operations

AirAsia adopted the low-cost carrier model in January 2002, and achieved a net profit by the year ended June 30, 2003, despite limited operations and financial resources.

AirAsia has used its experience and expertise in Malaysia to expand into Thailand through Thai AirAsia's operations. Management believes that the proven business model employed in Malaysia and Thailand can be replicated in other countries. Because of its Asian management, strong performance and brand recognition, AirAsia believes that it is better positioned to form joint ventures in other locations within Southeast Asia compared to other established low-cost carriers based outside Asia.

Ability to Penetrate and Stimulate a Large Potential Market

The Group targets the region in Southeast Asia within a three-and-a-half hour flight time from AirAsia's current hubs at KLIA and Senai, and Thai AirAsia's hub at DMA. This market encompasses a population of approximately 500 million people. Only a small percentage of this market regularly travels by air. AirAsia believes that certain segments of this market have been under-served historically and that the Group's low fares stimulate travel within these market segments. For the years ended June 30, 2003 and 2004, AirAsia's passenger volumes were 1.5 million guests and 2.8 million guests, respectively. According to S-A-P, AirAsia's share of domestic departing passenger movements for airports in Malaysia increased from 10.1% for the year ended December 31, 2002, to 17.1% for the year ended December 31, 2003, and to 23.1% for the six months ended June 30, 2004.

High Maintenance and Safety Standards

The Group's commitment to safety is a priority of the Company and its management. The Group's fleet is maintained in accordance with a program prescribed by Boeing, the manufacturer of the Group's aircraft. Since it began operations in 1996, none of the Group's aircraft have been involved in any major accident involving personal injury to its guests and employees, terrorist incident or other disaster.

Dynamic Brand

AirAsia believes that it has established a dynamic and popular brand. The brand is positioned to project the image of a safe, reliable, low-cost airline that places a high emphasis on customer service while providing an enjoyable flying experience. The AirAsia brand is well-recognized, particularly in Malaysia, Thailand, and Singapore, and was awarded SuperBrand status in Malaysia by SuperBrands International.

Proven Management Team

Most of the Company's current senior management team has been together since the Company commenced operations as a low-cost carrier in January 2002. The senior management team and Board of Directors have demonstrated their capabilities by turning around a loss-making, full-service airline into a profitable and respected regional low-cost carrier within a period of 18 months, during an extraordinarily difficult period for the airline services industry. As a testament to the management's success, AirAsia was named the "Asia Pacific Airline of the Year" in 2003 by the Center for Asia Pacific Aviation.

Distinctive Corporate Culture

The Group prides itself on building a strong, team-focused corporate culture. The Group's employees understand and subscribe to the Group's core strategy and actively focus on maintaining low costs and high productivity. The Group's management encourages open communication, which creates a dynamic working environment. Management believes that the Group's corporate culture is as strong today with over 1,800 employees in Malaysia and Thailand as it was with 322 employees in June 2002.

Initial Public Offering Enhances AirAsia's Financial Strength

As at June 30, 2004, AirAsia's cash and cash equivalents stood at RM58.6 million. The Initial Public Offering is intended to further strengthen AirAsia's financial position without compromising AirAsia's focus on low costs and high productivity. AirAsia's increased financial strength is also expected to place the Group in a better position to address challenges from competition, pursue its growth strategy and withstand business fluctuations.

Strategy

AirAsia's goal is to establish itself as a leading low-cost carrier in Asia. The principal components of AirAsia's strategy are as follows:

Stimulate Demand by Offering Low Fares

AirAsia's goal is to tap into Southeast Asia's growing population and geographic conditions and attract a broad range of guests. AirAsia believes that the Group's success in attracting guests and building customer loyalty will be determined primarily by its ability to consistently offer low fares. Consequently, the Group intends to continue to offer fares that are on average substantially lower than the published fares of its full-service competitors.

Expand Within Asia

The Group intends to use its hubs as platforms to operate high-volume, short-haul routes to cities within a three-and-a-half hour flight time. The Group focuses on routes that are under-served or not served by other airlines. The Group intends to launch flights to new destinations within Malaysia, Thailand, Indonesia and other countries in Southeast Asia and China by June 2005. The Group also intends to apply its existing low-cost carrier model employed in Malaysia and Thailand to offer domestic and international air travel services in other Asian markets, such as Indonesia, by identifying suitable local partners and forming joint ventures. See "Business — AirAsia's Operations — Route Network — Future Plans".

Increase Flight Frequencies

The Group intends to increase flight frequencies in its established markets as well as markets with expected high growth potential. AirAsia believes that increasing flight frequencies is important to guests who choose airlines based on low fares and scheduling convenience.

Continue to Minimize Operating Costs

The Group seeks sustainable efficiency improvements and cost savings through the following means:

- The Group encourages guests to make flight reservations through the Internet;
- Aircraft maintenance services, ground handling and ground support services at airports in Indonesia, Macau and Singapore are provided by third parties through a competitive bidding process or on a negotiated basis; and

- The Group intends to strictly adhere to its low-cost carrier model by not offering any frills such as complimentary in-flight meals, in-flight entertainment, loyalty programs, lounges or multiple classes of service. The Group intends to leverage its economies of scale to reduce its per unit cost and negotiate better terms with its suppliers and the airports at which it operates.

Invest in and Enhance AirAsia's Brand

AirAsia believes that its ability to generate publicity as well as its marketing and public relations activities have been successful in establishing a high level of brand awareness. AirAsia intends to continue to develop the AirAsia brand in the region, particularly in Malaysia, Thailand, Indonesia and Singapore as well as the new markets it intends to serve such as China. AirAsia will continue to refine its branding strategy to increase its customer base while entering new markets.

Continued Focus on Customer Service

The Group emphasizes high-quality, friendly and personal service, despite its low fares and low-cost carrier model. All employees are selected, trained and encouraged to provide services consistent with the Group's goals. The Group is committed to improving the quality of its services through initiatives to speed-up reservations and check-in, improve baggage handling services and provide rapid and effective responses to guest feedback. AirAsia will continue to consider ways to make its guests' experience more enjoyable and convenient.

Optimize Revenue and Develop New Revenue Streams

The Group uses a revenue management system to optimize revenue from passenger seat sales. This system allows the Group to optimize its revenue from passenger seat sales while still offering fares that are on average lower than its competitors on the same routes. AirAsia intends to expand its ancillary revenue base and capitalize on its strong brand by increasing the revenue it derives from other sources, especially freight services and charter services.

The Offering

Initial Public Offering:	Offering of 700,509,400 Shares, comprising the International Institutional Offering, the Malaysian Institutional Offering and the Malaysian Retail Offering, of which 583,757,800 Shares are being issued and offered by the Company and 116,751,600 Shares are being offered by the Selling Shareholders. Completion of the International Institutional Offering, the Malaysian Institutional Offering and the Malaysian Retail Offering are inter-conditional and are subject to all Issue Shares and Offer Shares under the Initial Public Offering having been fully subscribed for. There is only one class of shares in the Company, being ordinary shares of nominal value of RM0.10 each. As at the date of this Offering Circular, the authorized share capital of the Company consists of 5,000,000,000 Shares. Upon completion of the Initial Public Offering, the total issued and paid-up share capital of the Company will consist of 2,335,031,080 Shares. See "Details of the Initial Public Offering".
Institutional Offering:	560,407,500 Shares comprising the International Institutional Offering and the Malaysian Institutional Offering.
International Institutional Offering: . . .	392,285,250 Shares are being offered in (i) the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act and (ii) transactions outside of the United States and Malaysia in reliance on Regulation S under the Securities Act. See "Details of the Initial Public Offering" and "Plan of Distribution".
Malaysian Institutional Offering:	168,122,250 Shares are being offered to Malaysian institutional and selected investors.
Malaysian Retail Offering:	140,101,900 Issue Shares are being offered to (i) eligible employees and directors of the Company and persons who have contributed to the success of the Company; and (ii) Malaysian citizens, companies, societies, co-operatives and institutions (of which at least 30% is to be set aside strictly for Bumiputra individuals, companies, societies, co-operatives and institutions). See "Details of the Initial Public Offering", "Plan of Distribution" and "Risk Factors — Risks Relating to the Shares — There may be a delay or failure in trading of the Shares".
Clawback and Reallocation:	In the event the Malaysian Retail Offering is over-subscribed and there is a corresponding under-subscription in the Institutional Offering, Shares may be clawed back from the Institutional Offering and reallocated to the Malaysian Retail Offering. In the event that the Institutional Offering is over-subscribed and there is a corresponding under-subscription in the Malaysian Retail Offering, Shares may be clawed back from the Malaysian Retail Offering and reallocated to the Institutional Offering. There shall be no reallocation in the event the Malaysian Retail Offering and the Institutional Offering are over-subscribed. Any such reallocation is subject to the agreement of certain parties to the Retail Offer Agreement, the Malaysian Placement Agreement and/or the International Placement Agreement, in each case as defined herein, as applicable.
Selling Shareholders:	Tune Air, IDBIF, CAAL and DCL. Immediately prior to the Initial Public Offering, the Selling Shareholders own in aggregate 1,508,196,830 Shares, represent-

ing approximately 86.1% of the issued and outstanding Shares. Immediately following the Initial Public Offering, the Selling Shareholders will own in aggregate 1,391,445,230 Shares, representing approximately 59.6% of the issued and outstanding Shares. See "The Selling Shareholders".

Price per Share for the International Institutional Offering and the Malaysian Institutional Offering: ..... The price per Share for the International Institutional Offering and the Malaysian Institutional Offering is RM1.25 (the "Institutional Price").

Price per Share for the Malaysian Retail Offering: .... The price per Share for the Malaysian Retail Offering is RM1.1625 (the "Retail Price").

Use of Proceeds: .... The gross proceeds to the Company arising from the issue of 140,101,900 Issue Shares at the Retail Price of RM1.1625 and 443,655,900 Issue Shares at the Institutional Price of RM1.25 will be used, during the period of 36 months from the date of the Malaysian Prospectus, which was dated October 20, 2004, as set forth below:

	RM millions
Repayment of bank borrowings(1)	94.2
Capital expenditure(2)	100.0
Estimated listing expenses(3)	35.5
Working capital(4) (5)	487.7
Total gross proceeds	717.4

Notes:

(1) The Company had previously obtained an aggregate of RM100 million in loans from Southern Bank Berhad and Public Bank Berhad for the purpose of acquiring four additional aircraft (see "Description of Material Indebtedness and Credit Facilities"). As at June 30, 2004, RM95.5 million of the principal amount of the loans remained outstanding. AirAsia proposes to use part of the proceeds from the issue of the Issue Shares as well as existing cash balances to repay the above mentioned credit facilities. See "Proforma Consolidated Balance Sheets and Capitalization — Capitalization — Note (3)"

(2) AirAsia proposes to use part of the proceeds from the issue of the Issue Shares to fund its planned capital expenditure (including, among other things, the acquisition of aircraft, aircraft spares and construction of a simulator complex)

(3) The estimated listing expenses include professional advisory fees, fees to authorities and issuing house, underwriting commission, selling commission, brokerage fees, printing costs and other expenses incidental to the Initial Public Offering

(4) AirAsia utilizes short-term revolving credit and trade facilities to meet part of its working capital requirements. AirAsia further proposes to utilize part of the proceeds arising from the issue of the Issue Shares to support its business operations that include financing its aircraft lease expenses, administrative and operating expenses

(5) In the event AirAsia purchases or leases additional aircraft from Airbus or Boeing in addition to 12 additional aircraft AirAsia expects to acquire or lease by June 30, 2005, costs associated with deposits and initial progress payments will be paid for with existing cash on hand, which will include the proceeds from the issue of the Issue Shares allocated to working capital. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditure — Planned Capital Expenditure" and "Business — AirAsia's Operations — Fleet — Future Plans"

	The Company will not receive any proceeds from the offer and placement of the Offer Shares by the Selling Shareholders. See "Use of Proceeds".
Status of the Shares:	The Shares will rank *pari passu* in all respects with the other existing issued and outstanding Shares which are fully paid-up including as to voting rights and rights to all dividends and distributions. There are no special rights attached to the Shares. See "Description of Share Capital" and "Risk Factors — Risks Relating to the Shares — The Company is required to comply with restrictions on foreign ownership of its Shares, which may affect the voting rights, liquidity and market price of the Shares".
Dividends:	The Company has not declared or paid any dividends since its inception. The Board does not anticipate that it will declare any dividends for the financial year ending June 30, 2005. The Company's ability to pay dividends or make other distributions to its shareholders is subject to restrictions contained in its loan agreements which limit dividends without the prior written consent of the lenders, as well as to its having sufficient funds which are not needed to fund its operations, other obligations or business plans.
	The actual dividend that the Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined above as well as any other factors deemed relevant by the Board of Directors. See "Dividends".
Voting Rights:	Holders of Shares are entitled to one vote per Share. See "Description of Share Capital" and "Risk Factors — Risks Relating to the Shares — The Company is required to comply with restrictions on foreign ownership of its Shares, which may affect the voting rights, liquidity and market price of the Shares".
Tax Matters:	There is no withholding tax payable on dividends in Malaysia and there is no tax payable on capital gains from the disposition of certain securities (including the Shares) in Malaysia. See "Taxation — Malaysia". For a discussion of certain U.S. federal income tax considerations, see "Taxation — United States".
	Due to the Company's intention to retain a significant amount of the proceeds of the Initial Public Offering, the Company may be a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes for the current taxable year. If the Company were a PFIC in any year, special, possibly materially adverse, consequences would result for U.S. Holders (as defined herein). See "Taxation — United States — Passive Foreign Investment Company Considerations".
Lock-up:	The Company and substantially all of its shareholders (including the Selling Shareholders) will undertake not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any ordinary shares in the Company or securities convertible or exchangeable into or exercisable for Shares, or enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such aforementioned transaction is to be settled by delivery of

the Shares or such other shares, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or enter into any such transaction, swap, hedge or other arrangement or make an announcement relating thereto without, in each case, the prior written consent of the Sole Bookrunner and Sole Lead Manager, RHB Sakura Merchant Bankers Berhad ("RHB Sakura") and ECM Libra Securities Sdn Bhd ("ECM Libra") for a period commencing from the date of the lock-up agreement until 180 days after the date on which the Shares are listed and quoted on the Main Board of Bursa Securities (the "Listing Date").

Any Shares acquired by the above shareholders of the Company in the open market will not be subject to the lock-up agreement. A transfer of Shares by such shareholders to a family member or trust of such shareholders may be made, provided the transferee agrees to be bound in writing by the terms of the lock-up agreement prior to such transfer and such transfer shall not involve a disposition for value.

Notwithstanding the preceding restrictions on disposal, the restrictions do not apply:

(a) (i) to the grant of options by the Company and issue of shares consequent thereto pursuant to the By-laws of the AirAsia Share Option Scheme I ("ESOS") (details of which are set out in "Management — Employees' Share Option Scheme") or (ii) when the shareholdings of foreign interests in the Company come within 5.0% of the prescribed limit of 45.0% and the Directors, having regard to prevailing circumstances, are of the opinion that the Company's route rights may be compromised, in which case the Directors may immediately undertake a restricted issue and/or placement of new shares or securities upon such terms as they deem fit and in the best interest of the Company, in order to protect those route rights;

(b) to the 11,384,000 Shares delivered to RHB Sakura by Raja Mohd Azmi bin Raja Razali, the Company's Executive Vice President and Chief Financial Officer, upon the Listing Date; and

(c) with respect to the 78,807,300 Shares held by Crescent Air Investments II, Ltd., one third of which may be disposed of by Crescent Air Asia Investments II, Ltd. at or after each of 60, 120 and 180 days after the Listing Date with the prior written consent of the Sole Bookrunner and Sole Lead Manager, which consent shall not be unreasonably withheld.

Lembaga Tabung Haji, which will beneficially own 43,781,830 ordinary shares representing 1.9% of the Company's enlarged share capital after the completion of the Initial Public Offering, is not subject to any restriction on the disposal of such ordinary shares.

Further, pursuant to the SC Guidelines, certain shareholders are not allowed to sell, transfer or assign their shareholdings in the Company amounting in total to 45% of the enlarged issued and paid-up share capital of the Company for one year from the date of Admission. For further details on the above-mentioned moratorium, see "Shares Eligible for Future Sale".

	After the issuance of 583,757,800 Issue Shares pursuant to the Initial Public Offering, the Company will have an enlarged share capital of 2,335,031,080 issued and paid-up Shares. All of these shares will otherwise be freely tradable on the Main Board of Bursa Securities.
Risk Factors:	Prior to making an investment in the Shares, prospective investors should carefully consider the risks described under "Risk Factors" commencing on page 19 of this Offering Circular.
Payment and Settlement for the Shares:	Payment for the Shares being offered in the International Institutional Offering will be made in Ringgit for value on or about November 17, 2004, and interests in the Shares will appear in the records of the Central Depository System ("CDS") in Kuala Lumpur on or about November 22, 2004 (Kuala Lumpur time) of the banking day following the date of allotment. See "Details of the Initial Public Offering".
Brokerage and Commission:	Brokerage is payable by the Company and the Selling Shareholders (if applicable) in respect of the sale of the Shares to the Malaysian public at the rate of 1.0% of the Retail Price in respect of successful applications which bear the stamp of Participating Organizations of Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia and/or Malaysian Issuing House Sdn Bhd ("MIH"). The Company will pay or cause to be paid to the Retail Underwriters (as defined herein) commissions and fees equal to 1.0% of the Retail Price for the Shares sold in the Malaysian Retail Offering. The Company and the Selling Shareholders will pay or cause to be paid to the Malaysian Institutional Underwriters (as defined herein) commissions and fees equal to 1.75% of the Institutional Price for the Shares sold in the Malaysian Institutional Offering (the "Malaysian Placement Shares"). The Company and Selling Shareholders will pay or cause to be paid to the International Purchasers commissions and fees equal to 1.75% of the Institutional Price for the Shares sold in the International Institutional Offering (the "International Institutional Shares"). In addition, (i) the Company and the Selling Shareholders have agreed to pay the Joint Bookrunners for the Malaysian Institutional Offering an amount totalling 0.75% of the Institutional Price for the aggregate number of Shares sold in the Malaysian Institutional Offering and (ii) the Company has agreed to pay Credit Suisse First Boston (Hong Kong) Limited ("CSFB") an amount equal to 0.75% of the Institutional Price for the aggregate number of Shares sold in the International Institutional Offering.
	Purchasers of the Shares in the International Institutional Offering will be required to pay brokerage (and such brokerage will be 1.0% of the Institutional Price), stamp taxes and other similar charges in accordance with the laws and practices of the country of purchase, in addition to the Institutional Price, as applicable. See "Plan of Distribution" and "Details of the Initial Public Offering — Brokerage, Commissions and Other Fees".
24-day Gap Between Pricing and Trading of Shares:	It is expected that the Shares offered in this Initial Public Offering will not commence trading on Bursa Securities until November 22, 2004, which is 24 days after October 29, 2004

	(the "Price Determination Date"). Subscribers of the Shares will not be able to sell or otherwise deal in the Shares (except by way of book entry transfers to other CDS accounts in circumstances which do not involve a change in beneficial ownership) prior to the commencement of trading on Bursa Securities. See "Risk Factors — Risks Relating to the Shares — There may be a delay or failure in trading of the Shares".
Listing:	Prior to the Initial Public Offering there has been no market for the Shares. Application has been made to list the entire issued and fully paid-up share capital of the Company (including the Shares) on the Main Board of Bursa Securities. It is expected that the Shares will be admitted for trading on the Main Board of Bursa Securities on or about November 22, 2004.

Indicative Timetable

The following events are intended to take place on the following tentative dates:

Event	Tentative Dates
Opening of the Institutional Offering	October 14, 2004
Opening of the Malaysian Retail Offering	October 20, 2004
Closing of the Malaysian Retail Offering	October 27, 2004
Closing of the International Institutional Offering and the Malaysian Institutional Offering	October 29, 2004
Price Determination Date	October 29, 2004
Balloting of applications for the Issue Shares pursuant to the Malaysian Retail Offering	October 29, 2004
Allotment of Issue Shares to successful applicants pursuant to the Malaysian Retail Offering	November 17, 2004
Listing	November 22, 2004

See "Details of the Initial Public Offering — Important Dates".

Summary Selected Financial And Other Data

The following tables present selected consolidated financial and other data of the Company as at and for the two years ended March 31, 2001, the 15 months ended June 30, 2002, and the two years ended June 30, 2004. This data should be read in conjunction with the audited consolidated financial statements and the related notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other historical financial and operating data which are included elsewhere in this Offering Circular. The consolidated financial statements have been audited by the Company's independent auditors, whose report for each of the two years ended March 31, 2001, the 15 months ended June 30, 2002, and the two years ended June 30, 2004 is included elsewhere herein. The consolidated financial statements are prepared in accordance with MAAS, which differ in certain significant respects from generally accepted accounting principles in certain other countries. The significant differences between MAAS and U.S. GAAP as they relate to the Company are described under "Summary of Certain Differences between MAAS and U.S. GAAP". See also "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates".

Income Statement Data:

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,		
	2000	2001	2002(1)	2003	2004	2004
			(RM thousands)			(U.S.$ thousands)
Revenue	149,285	167,749	217,421	330,040	392,690	103,339
Cost of sales	(171,994)	(176,463)	(208,147)	(288,490)	(279,119)	(73,452)
Gross (loss)/profit	(22,709)	(8,714)	9,274	41,550	113,571	29,887
Sales and marketing expenses	(640)	(409)	(1,499)	(4,361)	(9,411)	(2,477)
Administration expenses	(2,862)	(3,523)	(7,936)	(23,061)	(34,351)	(9,040)
Other operating expenses	(2,573)	(2,048)	(1,445)	(3,758)	(13,054)	(3,435)
Other operating income	566	136	307	1,175	4,563	1,201
(Loss)/profit from operations	(28,218)	(14,558)	(1,299)	11,545	61,318	16,136
Finance costs	(3,075)	(4,559)	(308)	(84)	(3,131)	(824)
Share of losses of an associated company	—	—	—	—	(116)	(31)
(Loss)/profit before taxation	(31,293)	(19,117)	(1,607)	11,461	58,071	15,281
Taxation	(35)	(21)	(56)	7,375	(9,052)	(2,382)
(Loss)/profit after taxation	(31,328)	(19,138)	(1,663)	18,836	49,019	12,899
Minority interests	—	—	—	2	48	13
(Loss)/profit attributable to shareholders	(31,328)	(19,138)	(1,663)	18,838	49,067	12,912
Weighted average number of Shares in issue						
Basic (in thousands)	52,070	52,070	52,070	52,070	76,338	76,338
Diluted(2) (in thousands)	52,070	52,070	58,354	161,286	174,483	174,483
(Loss)/earnings per share (sen)						
Basic	(60.2)	(36.8)	(3.2)	36.2	64.3	16.9
Diluted	(60.2)	(36.8)	(2.8)	11.7	28.1	7.4

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) The weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares

Balance Sheet Data:

	As at March 31,		As at June 30,	As at June 30,		
	2000	2001	2002(1)	2003	2004	2004
			(RM thousands)			(U.S.$ thousands)
Non Current Assets						
Property, plant & equipment	1,451	1,463	6,704	20,048	158,456	41,699
Investment in an associated company	—	—	—	—	86	23
Other investments	—	—	—	6,379	108	28
Deferred expenditure	—	—	6,438	7,574	4,369	1,150
Deferred tax assets	—	—	—	7,500	—	—
	1,451	1,463	13,142	41,501	163,019	42,900
Current Assets						
Deferred share issue expense	—	—	—	—	2,741	721
Inventories (at cost)	2,644	2,765	1,949	2,193	3,947	1,039
Trade and other receivables	9,122	10,510	22,576	46,437	113,947	29,986
Amount owing by holding company	—	—	—	688	—	—
Amount owing by an associated company	—	—	—	—	202	53
Deposit, bank and cash balances	13,538	34,525	13,769	33,503	66,147	17,407
	25,304	47,800	38,294	82,821	186,984	49,206
Current Liabilities						
Trade and other payables	42,204	54,586	48,042	74,686	102,146	26,880
Hire purchase payables	85	85	10	85	128	34
Current tax liabilities	61	72	83	125	439	116
Amount owing to holding company	—	—	78	—	—	—
Amount owing to former holding company	1,641	1,831	—	—	—	—
Amount owing to former related companies	2,256	2,716	648	—	—	—
Amount owing to an associated company	—	—	—	—	202	53
Borrowings (secured)	2,200	2,200	—	—	47,728	12,560
	48,447	61,490	48,861	74,896	150,643	39,643
Net Current (Liabilities)/Assets	(23,143)	(13,690)	(10,567)	7,925	36,341	9,563
Non Current Liabilities						
Deferred tax liabilities	—	—	—	—	1,113	293
Hire purchase payables	111	25	—	348	239	63
Loan from former holding company (unsecured)	64,037	92,726	—	—	—	—
Borrowings (secured)	—	—	—	—	47,728	12,560
	64,148	92,751	—	348	49,080	12,916
	(85,840)	(104,978)	2,575	49,078	150,280	39,547
Capital and Reserves						
Share capital	52,070	52,070	161,286	161,286	175,127	46,086
Share application monies	—	—	—	27,617	—	—
Share premium	—	—	—	—	65,959	17,358
Accumulated losses	(137,910)	(157,048)	(158,711)	(139,873)	(90,806)	(23,897)
Shareholders' Equity	(85,840)	(104,978)	2,575	49,030	150,280	39,547
Minority Interests	—	—	—	48	—	—
	(85,840)	(104,978)	2,575	49,078	150,280	39,547

Note:

In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

Cash Flows and Other Selected Data:

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,		
	2000	2001	2002(1)	2003	2004	2004
	(RM thousands)					(U.S.$ thousands)
Net cash (used in)/generated from operating activities	(18,736)	(2,656)	(11,980)	15,202	28,919	7,610
Net cash used in investing activities	(26)	(633)	(6,554)	(22,276)	(143,848)	(37,855)
Net cash generated from/(used in) financing activities	25,164	24,276	(2,222)	25,847	140,976	37,099
Net increase/(decrease) in cash and cash equivalents	6,402	20,987	(20,756)	18,773	26,047	6,854
Cash and cash equivalents at beginning of financial year	7,136	13,538	34,525	13,769	32,542	8,564
Cash and cash equivalents at end of financial year(2)	13,538	34,525	13,769	32,542	58,589	15,418

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) Excludes fixed deposits pledged as security for banking facilities granted to the Company of RM961,000 and RM7.6 million as at June 30, 2003 and June 30, 2004, respectively

Other Financial Data:

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,		
	2000	2001	2002(1)	2003	2004	2004
	(RM thousands)					(U.S.$ thousands)
Revenue						
Passenger seat sales	41,181	44,041	87,856	195,864	347,971	91,571
Chartered flight revenue	105,844	118,409	123,179	123,061	24,514	6,451
Other revenue	2,260	5,299	6,386	11,115	20,205	5,317
Total revenue	149,285	167,749	217,421	330,040	392,690	103,339
Cost of sales						
Aircraft fuel expenses	(34,477)	(41,417)	(63,980)	(93,581)	(102,707)	(27,028)
Aircraft operating lease expenses	(68,898)	(72,858)	(74,492)	(78,986)	(42,790)	(11,261)
Maintenance and overhaul expenses	(19,598)	(17,828)	(13,804)	(55,876)	(73,778)	(19,415)
Staff costs	(8,248)	(8,340)	(10,626)	(25,496)	(48,403)	(12,738)
User charges and station charges	(23,287)	(18,669)	(24,071)	(21,837)	(9,579)	(2,520)
Others	(17,486)	(17,351)	(21,174)	(12,714)	(1,862)	(490)
Total cost of sales	(171,994)	(176,463)	(208,147)	(288,490)	(279,119)	(73,452)
EBITDAR(2)	41,299	58,921	75,316	94,790	117,031	30,798
EBIT(3)	(28,218)	(14,558)	(1,299)	11,545	61,318	16,136

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) Earnings before interest, taxation, depreciation, amortization and aircraft operating lease expenses. AirAsia believes that EBITDAR provides useful information but should not be considered as an indication of, or as an alternative to, profit attributable to shareholders or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBITDAR in a different manner than AirAsia

(3) Earnings before interest and taxation. AirAsia believes that EBIT provides useful information but should not be considered as an indication of, or as an alternative to, profit attributable to shareholders or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBIT in a different manner than AirAsia

Operating Data (Unaudited):

The following table presents certain unaudited operating data with respect to AirAsia's Malaysian operations.

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,	
	2000	2001	2002(1)	2003	2004
Passengers carried	271,118	290,687	610,738	1,481,097	2,838,822
RPK (millions)(2)	339	363	672	1,539	2,771
ASK (millions)(3)	547	586	1,018	2,086	3,592
Passenger load factor (%)(4)	62	62	66	74	77
Average fares (RM)	207	203	183	147	131
Number of aircraft at year end	2	2	3	7	13
Average number of aircraft	2	2	2.5	5.5	9.5
Number of sectors flown	3,346	3,346	6,521	14,461	25,106
Aircraft utilization (block hours per day)(5)	9.2	10.1	11.2	12.5	12.8
Revenue per RPK(6)(7)					
(RM)	0.205	0.204	0.184	0.151	0.142
(U.S.$)	0.054	0.054	0.049	0.040	0.037
Revenue per ASK(7)(8)					
(RM)	0.127	0.126	0.122	0.111	0.109
(U.S.$)	0.033	0.033	0.032	0.029	0.029
Cost per ASK(9)					
(RM)	0.189	0.160	0.128	0.109	0.094
(U.S.$)	0.050	0.042	0.034	0.029	0.025
Average stage length (kilometers)(10)	1,238	1,327	1,128	975	967

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) Represents revenue passenger kilometers, which is the number of paying passengers carried on scheduled flights multiplied by the number of kilometers those passengers were flown

(3) Represents available seat kilometers, which is the total number of seats available on scheduled flights multiplied by the number of kilometers those seats were flown

(4) Represents the number of passengers as a proportion to the number of seats available for passengers (148 seats available for AirAsia's Boeing 737-300 aircraft)

(5) Represents the average block hours per day per aircraft during the relevant financial year

(6) Calculated as the Company's total revenue divided by RPK

(7) Non-scheduled, chartered flight revenue (amounting to RM79.9 million for the year ended March 31, 2000, RM93.7 million for the year ended March 31, 2001, RM93.5 million for the 15 months ended June 30, 2002, RM97.8 million for the year ended June 30, 2003, and nil for the year ended June 30, 2004) was subtracted from the Company's total revenue for the purpose of this calculation

(8) Calculated as the Company's total revenue divided by ASK

(9) Calculated as total operating expenses (excluding finance costs and taxation) divided by ASK. Costs of sales relating to non-scheduled, chartered flight revenue (amounting to RM74.7 million for the year ended March 31, 2000, RM88.9 million for the year ended March 31 2001, RM89.0 million for the 15 months ended June 30, 2002, RM93.3 million for the year ended June 30, 2003, and nil for the year ended June 30, 2004) was subtracted from total operating expenses for the purpose of this calculation

(10) Represents the average number of kilometers flown per flight

Summary Future Financial Information

The prospective financial information included in this Offering Circular has been included in the Malaysian Prospectus pursuant to Malaysian law for the benefit of investors in the Malaysian Retail Offering and the Malaysian Institutional Offering, and has been prepared by, and is the responsibility of, the Company's Directors, in accordance with SC Guidelines and MAAS. There is no intention to update this information or publish prospective financial information in the future.

Investors' attention is drawn to the developments and significant uncertainties affecting the Group's business that are discussed elsewhere in this Offering Circular, in particular "Risk Factors". The forecast should be read together with the assumptions and sensitivity analysis set forth herein. For illustrative purposes only, an assumed Institutional Price of RM1.51 per share, based on an assumed Retail Price of RM1.40 per share for the Malaysian Retail Offering, is used below. The Institutional Offering is assumed to comprise 80% of the Initial Public Offering. Since the actual Institutional Price is less than RM1.51, the actual proceeds from the Initial Public Offering will be less than the amounts assumed in the forecast.

The prospective financial information was not prepared as a forecast in compliance with the published guidelines of the American Institute of Certified Public Accountants regarding forecasts.

PricewaterhouseCoopers has neither examined nor compiled the accompanying prospective financial information for purposes of its inclusion in an offering document provided to non-Malaysian investors and, accordingly, PricewaterhouseCoopers does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers report included in this Offering Circular relates to AirAsia's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

Consolidated Profit Forecast for the Year Ending June 30, 2005 for AirAsia

Set out below is a summary of the consolidated profit forecast of AirAsia for the year ending June 30, 2005. See "Future Financial Information" for the complete profit forecast.

	Year ending June 30, 2005	
	Without Initial Public Offering	With Initial Public Offering
	RM (thousands)	RM (thousands)
Revenue	746,596	746,596
Consolidated profit before taxation	157,030	172,804 (1)
Less: Taxation	(8,349)	(11,578) (2)
Consolidated profit after taxation	148,681	161,226
Less: Minority interest	(1,344)	(1,344)
Consolidated profit after taxation and minority interest	147,337	159,882
Earnings per ordinary share(3)		
— Basic (sen)	8.41	7.47
— Diluted (sen)	8.41	7.41
Prospective price to earnings multiples based on an assumed Retail Price of RM1.40 and		
— Basic earnings per ordinary share (times)	16.65	18.74
— Diluted earnings per ordinary share (times)	16.65	18.89

Notes:

(1) Consolidated profit before taxation, after the Initial Public Offering, includes interest income earned at 3% per annum on proceeds arising from the Initial Public Offering that are assumed to be placed in deposits with licensed banks, and the interest savings on repayment of borrowings using the proceeds from the issue of the Issue Shares

(2) Taxation, after the Initial Public Offering, includes the tax on interest income earned from the deposits placed with licensed banks

(3) Basic and diluted earnings per share are calculated as set out in "Future Financial Information — Consolidated Profit Forecast for the Year Ending June 30, 2005 for AirAsia — Earnings Per Share"

Dividend Forecast

The Company has not declared or paid any dividends since its inception. The Board does not anticipate that it will declare any dividends for the financial year ending June 30, 2005.

The Company's ability to pay dividends or make other distributions to its shareholders are subject to restrictions contained in its loan agreements which limit dividends without the prior written consent of the lenders, as well as to its having sufficient funds which are not needed to fund its operations, other obligations or business plans. Please see "Description of Material Indebtedness and Credit Facilities".

The actual dividend that the Directors may recommend or declare in respect of any particular financial year or period will be subject to the foregoing factors and those outlined below as well as any other factors deemed relevant by the Board of Directors. In considering the level of dividend payments, if any, upon recommendation by the Board of Directors, the Company intends to take into account various factors including:

- the level of its cash, gearing, return on equity and retained earnings
- its expected financial performance
- its projected levels of capital expenditure and other investment plans

In addition, under Malaysian law, the level of franking credits or exempt income accounts available to distribute dividends in a tax efficient manner may also limit the amount of dividends. Considering the current financial position of the Company, the Company does not intend to pay any dividends during the year ending June 30, 2005.

Investors should note that all the foregoing statements are merely statements of the Company's present intention and shall not constitute legally binding statements in respect of its future dividends which are subject to modification (including reduction or non-declaration thereof) in the Directors' sole and absolute discretion. The Directors intend to review the Company's dividend policy on an ongoing basis.

No inference should or can be made from any of the foregoing statements as to the Company's actual future profitability or its ability to pay dividends in the future. See "Dividends".

RISK FACTORS

Before investing in the Shares, prospective investors should pay particular attention to the fact that AirAsia, and to a large extent its activities, are governed by the legal, regulatory and business environment in Malaysia and other countries in Southeast Asia, which differs from that which prevails in other countries. The business of AirAsia is subject to a number of factors, many of which are outside AirAsia's control. Prior to making an investment decision, prospective investors should carefully consider, along with the other matters set forth herein, the risks and investment considerations set forth below. The risks and investment considerations set forth below are not an exhaustive list of the challenges currently facing the Group or that may develop in the future. Additional risks, whether known or unknown, may in the future have a material adverse effect on the Group or the Shares.

Risks Relating to the Group

Increased competition in the airline industry along with competition from other forms of transportation and communication could materially and adversely affect the Group

The airline industry is highly competitive. The Group's competition can be categorized as follows:

- full-service operators based at KLIA, Senai and DMA;
- other low-cost carriers in Southeast Asia; and
- other forms of transportation and communication.

AirAsia operates out of two hubs in Malaysia, namely KLIA and Senai, and Thai AirAsia operates out of DMA in Thailand. AirAsia's largest existing competitor for its domestic flights and international flights at KLIA is MAS. In Thailand, Thai AirAsia's largest competitor is Thailand's flagship carrier, Thai Airways International PCL ("THAI"). Other competing full-service carriers based in Thailand include Orient Thai Airlines Ltd. ("Orient Thai") and Bangkok Airways Co. Ltd. International full-service airlines such as Garuda International Airlines ("Garuda") and Singapore Airlines Ltd ("Singapore Airlines") also compete with the Group on some of its international routes.

Full-service airlines generally have the advantage of being larger, with significantly greater financial and other resources than the Group. As a result, they may be in a better position to withstand losses on some of their routes for a longer period of time than the Group. Since AirAsia began operations, MAS has reduced its fares on certain routes to compete with fares charged by AirAsia (see "Business — Competition"). In the event that MAS or any other full-service carriers were to reduce their fares to levels at which AirAsia could not match while sustaining profitable operations, and were to maintain such reduced fares for an extended period, there can be no assurance that AirAsia would be able to maintain such reduced fares for an equivalent period of time. Malaysia does not have any antitrust laws which prohibit monopoly or predatory pricing.

Flagship carriers frequently benefit from other types of government support and have other privileges which enhance their competitive position. For example, MAS and THAI are responsible for the allocation of slots at KLIA and DMA, respectively. Unfavorable allocations of slots to the Group may reduce the attractiveness of its flights which would materially and adversely affect its revenues.

The Group also faces competition from regional low-cost carriers. These low-cost carriers may also have significantly greater financial and other resources than the Group. Subject to airport capacity, low-cost carrier competitors could rapidly enter markets served by the Group and quickly discount their fares, which could materially and adversely affect the Group. The airline industry is particularly susceptible to price discounting because airlines incur only nominal variable costs to provide service to passengers occupying otherwise unsold seats.

In addition to fare competition, an increase in the number of airlines operating at the Group's hubs may result in an increase in congestion and delays at those airports which could have a material adverse effect on the Group's operations.

The Group also faces competition from ground and sea transportation alternatives, which are the traditional means of transportation used by substantially all of the population in the Group's markets. Video teleconferencing and other methods of electronic communication also add a new dimension of competition to the industry as businesses seek lower-cost substitutes for air travel.

The Group may not be successful in implementing its growth strategy

The Group's growth strategy involves increasing the frequency of flights to markets that it currently serves and expanding the number of markets that it serves. As part of this growth strategy, AirAsia is considering the Proposed Acquisition. See "Business — AirAsia's Operations — Fleet — Future Plans". Increasing the number of markets that the Group serves depends upon it obtaining additional traffic rights to suitable airports located in its targeted geographic markets. There can be no assurance that such traffic rights will be granted to the Group. The failure to obtain these traffic rights may have a material adverse effect on the Group.

Many of the markets the Group intends to serve are expected to be in countries where the Group has limited operating experience. The operation of the Group's business in these markets may present operating, financial and legal challenges which are different from those that the Group currently encounters in its existing markets. The Group could also face marketing challenges, including challenges related to the use of the AirAsia brand. There can be no assurance that the Group will succeed in implementing its strategy of expanding into new markets. See "Business — AirAsia's Operations — Route Network — Future Plans".

To expand effectively, and to further reduce distribution costs, the Group intends to increase bookings made through the Internet. Internet bookings are currently only payable by credit card. The Group's primary markets are characterized by relatively low Internet penetration and credit card usage. There can be no assurance that Internet and/or credit card penetration in the Group's markets will increase sufficiently for the Group to increase bookings through the Internet, which may have a material adverse effect on the Group's ability to reduce its costs. See "Business — AirAsia's Operations — Distribution and Sales".

Other factors that may have an impact on the Group's growth strategy include:

- the general condition of the Asian and global economy;
- demand for regional air transportation;
- the Group's ability to operate and manage a larger operation cost-effectively;
- AirAsia's ability to identify and attract suitable joint venture partners to facilitate its expansion into new markets;
- the Group's ability to hire, train and retain sufficient numbers of pilots, flight crew and engineers for its aircraft;
- the Group's ability to secure a sufficient number of aircraft on favorable lease or purchase terms;
- the Group's ability to source and take delivery of aircraft on a timely basis; and
- the Group's ability to obtain the financing necessary to pay for expansion at cost-effective rates.

Many of these factors are beyond the Group's control. There can be no assurance that the Group will be able to successfully expand within its existing markets or establish new markets, and its failure to do so may have a material adverse effect on its prospects and future results of operations.

The Group could be materially and adversely affected in the event of an accident or incident involving its aircraft

The Group is exposed to potential significant losses in the event that any of its aircraft is lost or subject to an accident, terrorist incident or other disaster and significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service. There can be no assurance that the Group will not be involved in any such event. There can be no assurance that the amount of the Group's insurance coverage will be adequate in the event such circumstances arise (see "— Risks Relating to the Group — The Group is exposed to certain risks against which it does not insure, and may have difficulty obtaining insurance on commercially acceptable terms or at all") and any such event could cause a substantial increase in the Group's insurance premiums. In addition, any future aircraft accidents or incidents, even if fully insured, may create a public perception that the Group is less safe than other airlines, which could have a material adverse effect on the Group.

The Group could be materially and adversely affected by the unavailability of sufficient quantities or cost of fuel

Fuel costs constituted 30.6% of AirAsia's total cost of sales and operating expenses for the year ended June 30, 2004. AirAsia implements various fuel management strategies in order to manage the risk of rising fuel prices. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk — Fuel Price Risk". AirAsia has entered into jet fuel derivative contracts to hedge against increases in jet fuel prices for the year ending June 30, 2005. There is a risk, however, that AirAsia's fuel hedging program will be insufficient to protect the Group against increases in the price of fuel. AirAsia forecasts that its fuel costs will increase to approximately 43% of its total cost of sales and operating expenses for the year ending June 30, 2005. AirAsia has not yet entered into any jet fuel derivative contracts for the Group's expected fuel requirements for any period after June 30, 2005. There is no assurance that AirAsia will be able to secure new jet fuel derivative contracts on commercially reasonable terms or at all.

Both the cost and availability of fuel are subject to many economic and political factors and events occurring throughout the world. Since December 2003, fuel prices have risen sharply, forcing a number of airlines operating in the Asia Pacific region to levy fuel surcharges on its passengers. The Group's ability to pass on increased fuel costs through fare increases is limited by several factors, including economic and competitive conditions. In addition, AirAsia relies on Petronas Dagangan Berhad ("Petronas") for its jet fuel requirements. For the year ended June 30, 2004, 93% of AirAsia's aircraft fuel expenses were the result of purchases of jet fuel from Petronas. Any decline in the availability of adequate supplies of fuel and/or any increase in the cost of fuel could have a material adverse effect on the Group's costs and as a result cause the Group to increase the fares and/or surcharges it charges for air travel services. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk — Fuel Price Risk", "Business — AirAsia's Operations — Fuel" and "Business — Major Suppliers".

AirAsia's maintenance costs will increase as its fleet ages

The average age of AirAsia's aircraft was approximately 16 years as at June 30, 2004. If AirAsia does not proceed with the Proposed Acquisition, the Group's fleet will require more maintenance as it ages and its maintenance and overhaul expenses will increase on an absolute basis, on an available seat kilometer basis and as a percentage of its operating expenses. Any significant increase in maintenance and overhaul expenses could have a material adverse effect on AirAsia. See "Business — AirAsia's Operations — Maintenance and Spare Parts — Ageing Aircraft Program".

AirAsia currently incurs low maintenance and overhaul expenses because it procures maintenance services from third-parties through a competitive bidding process and performs its own light maintenance pursuant to approval granted by the DCA (see "Business — AirAsia's Operations — Maintenance and Spare Parts"). There can be no assurance that AirAsia's existing maintenance agreements will be renewed at similar prices or that DCA will not revoke its approval to allow AirAsia to perform its own light maintenance.

The Group's business is dependent on the Malaysia and Thailand markets and a reduction in demand for air travel in these markets may have a material adverse effect on the Group

The Group's growth has focused and, at least in the near-term, will continue to focus on adding flights to and from its operations at KLIA, Senai and DMA. AirAsia is also considering developing more hubs in Malaysia. The Group would be materially and adversely affected by any circumstances causing a reduction in demand for air transportation in Malaysia and Thailand, including adverse changes in local economic conditions, declining interests in Malaysia and Thailand as tourist destinations, or significant price increases linked to increases in airport access costs and fees imposed on passengers.

The Group could be materially and adversely affected by a change in the availability or cost of airport facilities

The availability and cost of terminal space, slots and aircraft parking are critical to the Group's operations. Ground and maintenance facilities, including gates and hangars, and support equipment will be required to operate additional aircraft in line with the Group's expansion plans. These and other required facilities and equipment may be unavailable in a timely or economic manner. For example, there are discussions involving increasing parking and landing fees at DMA by 20% by the end of 2004 and a further increase of an additional 15% in 2005. The inability of the Group to lease, acquire or access airport facilities on reasonable terms or at preferred times to support its growth would have a material adverse effect on the Group.

The Group relies on a high daily aircraft utilization rate to optimize its revenue, making it especially vulnerable to delays

One of the key elements of the Group's business strategy is to maintain a high daily aircraft utilization rate. High daily aircraft utilization allows the Group to generate more revenue from its aircraft and is achieved in part by reducing turnaround times at airports. Aircraft utilization is reduced by delays caused by various factors, many of which are beyond the Group's control, including, among others, adverse weather conditions, security and safety, other air traffic control related requirements, and unscheduled maintenance.

The expansion of AirAsia's business to include new destinations and more frequent flights on current routes could increase the risk of delays to the Group's scheduled flights. Such delays may reduce the Group's daily aircraft utilization and harm its reputation. High aircraft utilization also increases the risk that, in the event that an aircraft falls behind schedule during the day, it could remain behind schedule during the remainder of that day, which can disrupt timely operations and lead to guest dissatisfaction.

The Group relies on automated systems and the Internet to operate its business and any failure of these systems may have a material adverse effect on the Group

The Group depends on automated systems to operate its business, including its website and its online reservation and telecommunication systems. The Group's website and online reservation system must be able to accommodate a high volume of traffic and deliver important flight information. AirAsia experienced several system failures in July 2003, caused by high volumes of traffic on AirAsia's website. In August 2003, Navitaire, the software operator of the Group's reservation booking system, provided it with a server which has a higher capacity to process increased volumes, and a backup server in the event of a failure of the Group's primary server. Since then, AirAsia has not experienced any system failures, but there can be no assurance that system failures will not occur in the future. Any disruption in these systems could result in the loss of important data, increase the Group's expenses and harm its reputation and ticket sales. See "Business — AirAsia's Operations — Information Technology".

Any real or perceived problem with Boeing 737-300 aircraft and CFM56-3 engines, including their unavailability, or any decision to operate a new aircraft type or engine type, could have a material adverse effect on the Group

Currently, one of the key elements of the Group's low-cost carrier model is to operate only one type of aircraft, the Boeing 737-300. The Group's Boeing 737-300 fleet uses CFM56-3 engines. If AirAsia's lessors or vendors are unable to perform their contractual obligations to lease or sell aircraft and supply engines to AirAsia, AirAsia may have to find alternative suppliers of the aircraft and engines. In such an event, there can be no assurance that AirAsia would be able to lease or purchase aircraft and engines within the time frame currently expected or at comparable prices. This would require the Group to obtain and use another type of aircraft and engine.

In addition, the Group's dependence on the Boeing 737-300 aircraft and the CFM56-3 engine makes it particularly vulnerable to any problems that might be associated with the aircraft and the engine. The Group would be significantly harmed if a design defect or mechanical problem with the Boeing 737-300 aircraft and/or the CFM56-3 engine were discovered, causing its aircraft to be grounded while any such defect or problem is corrected, assuming it could be corrected at all. The Group could be materially and adversely affected if the public avoids flying its aircraft as a result of an adverse perception of the Boeing 737-300 aircraft due to real or perceived safety concerns or other problems.

AirAsia is currently considering the Proposed Acquisition. In the event AirAsia acquires additional aircraft of a different type than the Boeing 737-300, AirAsia expects that such aircraft would be delivered over a period of several years, commencing as early as January 2006, and the Group's entire fleet would gradually shift to the new aircraft type. During the transition period in which the Group would operate a mixed fleet, AirAsia will incur transition costs, including higher costs associated with hiring and training pilots, cabin crew and engineers to operate and maintain a different type of aircraft. The Group would also need access to a flight simulator for the new aircraft type. In addition, the Group would be exposed to the same risk of real or perceived problems with respect to the new type of aircraft and engines. There is also no assurance that any benefits AirAsia expects to result from changing the aircraft type and engines would be realized. See "Business — AirAsia's Operations — Fleet — Future Plans".

The Group has a limited operating history as a low-cost carrier and it may be difficult to evaluate an investment in the Shares

The Company commenced operations as a low-cost carrier in January 2002. Thai AirAsia commenced operations in February 2004. As such, it is difficult to evaluate the Group's future prospects because of its limited operating history as a low-cost carrier. The Group's prospects are uncertain and must be considered in the light of the risks, uncertainties and difficulties frequently encountered by companies during the early stages of operations. Any difficulties in implementing its policies or the failure of its policies to effectively organize and supervise operations may negatively affect the Group.

Historically, there has been a high failure rate among start-up airlines. The Group's future performance will also depend on its ability to:

- implement its growth strategy;
- address competition from new and existing competitors;
- provide high quality, reliable guests service at low fares;
- choose new markets successfully;
- hedge against fuel price, foreign exchange and interest rate fluctuations;
- order and obtain aircraft that best suit its strategy;
- maintain adequate control of its expenses;
- attract, train, retain and motivate qualified personnel;
- react to customer and market demands; and
- maintain the safety of its operations.

There can be no assurance that the Group will be able to successfully address all of these factors and failure to do so could have a material adverse effect on the Group.

The Group relies on third parties to provide its customers with facilities and services that are integral to its international business

The Group has entered into agreements with third party operators to provide certain facilities and services required for its operations in international airports in which it operates, including ground handling, maintenance, refueling and airport facilities such as aerobridges (see "Business — AirAsia's Operations — Airport Operations and Facilities"). The Group is likely to enter into similar agreements in new markets it decides to enter. The loss or expiration of these contracts or any inability to find suitable alternate providers or renew or negotiate contracts with those providers at comparable rates could have a material adverse effect on the Group. See also "— The Group could be materially and adversely affected by the unavailability of sufficient quantities or cost of fuel."

The Group depends on the efforts of its executive officers and other key management

AirAsia's success depends to a significant extent upon the continued services of its executive officers, in particular its Group Chief Executive Officer, Tony Fernandes, and other key management personnel. Although AirAsia maintains key-man life insurance for Tony Fernandes, such insurance may not be sufficient to cover the costs of recruiting and hiring a replacement chief executive officer, or the loss of his services. The unavailability of any of the Group's executive officers and other key management or failure to recruit suitable or comparable replacements could have a material adverse effect on the Group.

Any difficulties that the Group may experience in attracting and retaining qualified personnel at reasonable costs or any failure to maintain the Group's corporate culture may have a material adverse effect on it

The Group's business model requires it to have highly-skilled, dedicated and efficient pilots, engineers and other personnel. The Group's growth plans will require it to hire, train and retain a significant number of new employees in the future. From time to time, the airline industry has experienced a shortage of skilled personnel, especially pilots and engineers. The Group competes against major, full-service airlines for these highly-skilled personnel. Many of these full-service airlines offer wage and benefit packages that exceed those offered by the Group. As a result, the Group has begun to recruit new pilots in countries such as Indonesia, Australia, the Philippines and the United Kingdom. The Group may have to increase wages and benefits to attract and retain qualified personnel or risk considerable employee turnover. If the Group is unable to hire, train and retain qualified employees at a reasonable cost it may be unable to execute its growth strategy, which would have a material adverse effect on the Group.

In addition, the Group may find it increasing challenging to maintain its corporate culture as it hires more personnel. The Company believes that one of its competitive strengths is its service-oriented corporate culture that emphasizes friendly, helpful, team-oriented and customer-focused employees who strive to increase the Group's productivity helps keep its costs low (see "Business — Competitive Strengths"). If the Group were unable to identify, hire or retain employees who meet these criteria, its corporate culture and reputation would be adversely affected.

Control by principal shareholder

After the completion of the Initial Public Offering, Tune Air will own 1,045,344,650 Shares, representing 44.8% of the issued and outstanding Shares of the Company. By virtue of its shareholding in the Company, Tune Air will have the ability to indirectly exercise control over the Company and its affairs and business, including the election of directors, the timing and payment of dividends and the approval of most other actions requiring the approval of its shareholders. The interests of Tune Air may differ from or conflict with the interests of other shareholders of the Company.

The Group may incur a significant amount of debt in the future to finance the acquisition of aircraft, capital expenditure or its expansion plans

The Group has historically required financing to acquire aircraft and is likely to require financing and incur significant amounts of debt in the future to fund the acquisition of additional aircraft (such as the Proposed Acquisition), its operations, other anticipated capital expenditures, working capital requirements and expansion overseas. There is no assurance that the Group will be able to raise such financing on favorable terms or at all, which could have a material adverse effect on the Group. See "Business — AirAsia's Operations — Fleet — Future Plans".

Moreover, the Group's future credit facilities may contain covenants that limit the Group's operating and financing activities and require the creation of security interests over its assets. The Group's ability to meet its payment obligations and to fund planned capital expenditures will depend on the success of its business strategy and its ability to generate sufficient revenues to satisfy its obligations, which are subject to many uncertainties and contingencies beyond its control.

The Group is exposed to certain risks against which it does not insure, and may have difficulty obtaining insurance on commercially acceptable terms or at all

Insurance is fundamental to airline operations. As a result of terrorist attacks or other world events, certain aviation insurance could become unavailable or available only for reduced amounts of coverage that are insufficient to comply with the levels of coverage required by the Group's aircraft lessors or applicable government regulations. Any inability to obtain insurance, on commercially acceptable terms or at all, for the Group's general operations or specific assets would have a material adverse effect on the Group.

There can be no assurance that the Group's coverage will cover actual losses incurred. To the extent that actual losses incurred by the Group exceed the amount insured, the Group could have to bear substantial losses which may have a material adverse effect on the Group. In line with industry practice, the Group leaves some business risks uninsured including business interruptions, loss of profit or revenue and mechanical breakdown. To the extent that uninsured risks materialize, the Group could be materially and adversely affected.

Following the terrorist attacks of September 11, 2001, aviation insurers have increased premiums, applied insurance surcharges for each passenger, and significantly reduced coverage for war and allied perils liability to third parties. In July 2004, the Government renewed the indemnity agreement with AirAsia through June 30, 2005, to undertake liabilities for damage caused to third parties as a result of, among other things, terrorist attacks or acts of war against AirAsia's aircraft that may occur or arise within

Malaysia's territorial limits (including airspace). This undertaking by the Government is currently limited to cover liabilities not otherwise insured, and in any event up to an aggregate of U.S.$450 million. The indemnity agreement provides, however, that the Government may, at its sole discretion, suspend its coverage at any time, effective within seven days after notice of such termination is given to AirAsia. The Government advised AirAsia that the indemnity will not be renewed beyond June 30, 2005. The Government of Thailand has not provided any such undertaking for the benefit of Thai AirAsia. In the event of additional terrorist attacks, hijackings, airlines crashes or other events adversely affecting the airline industry, there is a risk that aviation insurers will further increase their premiums or reduce the availability of insurance coverage. Significant increases in insurance premiums or reductions in coverage may have a material adverse effect on the Group. See "Business — AirAsia's Operations — Insurance".

If the Group is unable to obtain regulatory approvals in the future, it will not be able to operate a scheduled airline

The Group has no control over the regulations that apply to it. Changes in the interpretation of current regulations or the introduction of new laws or regulations may have a material adverse effect on the Group. See "Regulation of the Airline Industry in Malaysia".

To operate a scheduled airline in Malaysia, the Company is required to hold an air service license ("ASL") which is granted, and subject to conditions imposed by Malaysia's DCA. Similarly, to operate a scheduled airline in Thailand, Thai AirAsia is required to hold an ASL to operate an air navigation business which is issued by the Aircraft Transportation Control Department of the Department of Civil Aviation of the Thai Ministry of Transport & Communication. In addition, an air operator's certificate ("AOC") is granted by Malaysia's and Thailand's respective departments of civil aviation when each is satisfied that the relevant operator is competent to secure the safe operation of the aircraft. Each license is valid for a prescribed period following which an application has to be made for a new license which the relevant department of civil aviation has the discretion to grant. For a description of the regulation of the Malaysian airline industry, see "Regulation of the Airline Industry in Malaysia". The Company's current ASL was issued on April 1, 2004 and is valid for five years, while its current AOC is valid for a year, commencing September 29, 2004. Thai AirAsia's current ASL was issued on November 6, 2003, and is valid for five years. Commencing September 14, 2004, Thai AirAsia's current AOC is valid as long as Thai AirAsia conducts flight operations in accordance with Thai AirAsia's operations manual. However, the AOC only authorizes Thai AirAsia to operate the aircraft it currently leases from the Company until December 14, 2004. There can be no assurance that a new ASL and AOC would be granted to each of the Company and Thai AirAsia upon the expiry of each of their current ASLs and AOCs, without which the Company and Thai AirAsia will not be able to operate air services.

There are relatively low regulatory barriers to entry to the Thai domestic aviation industry

Regulation of the airline industry in Thailand has been progressively liberalized since 1988 and on an accelerated basis since 1996. Thailand has permitted all private Thai airlines to operate all domestic routes since September 2000 and since September 2001, to operate international routes to and from Thailand on a route-specific basis, subject to the availability of traffic rights and any required foreign government approvals. Most recently, Thailand entered into "open-skies" agreements with India in October 2003 and China in January 2004 which lifts restrictions on airlines, flight and passenger numbers and allows airlines to exercise their fifth freedom rights between Thailand and India, and Thailand and China, respectively (see "Business — Thai AirAsia's Operations — Air Traffic Rights"). As a result, Thai AirAsia may face competition in its routes in Thailand, which could have a material adverse effect on Thai AirAsia's financial performance.

The Group may be adversely affected by factors beyond its control, including weather conditions

Generally, revenue for passenger airlines depends on the number of passengers carried and the fare paid by each passenger. During periods of storms or other adverse weather conditions, flights may be cancelled or significantly delayed. Malaysia is affected by the Northeast monsoon from November to January, and the Southwest monsoon from June to August. In particular, Kota Kinabalu in East Malaysia and Kuala Terengganu and Kota Bahru on the East Coast of Peninsular Malaysia, have, in the past, experienced heavy flooding during the Northeast monsoon season. In the event that the Group reduces the number of its flights for these reasons, its revenues and profits will be reduced.

Failure to maintain its international operating rights would have a material adverse effect on the Group

As a general principle, to operate international air services it is necessary for the Company and Thai AirAsia to remain substantially owned and effectively controlled by Malaysian and Thai nationals, respectively. There is a risk that these ownership restrictions may be breached and, although the Company has adopted measures to address this issue, they may be insufficient to maintain the required level of national ownership. See "— Risks Relating to the Shares — The Company is required to comply with restrictions on foreign ownership of its Shares, which may affect the voting rights, liquidity and market price of the Shares", "Regulation of the Airline Industry in Malaysia — International Traffic Rights" and "Description of Share Capital — Voting Rights". Failure to comply with these requirements could result in the revocation of AirAsia's or Thai AirAsia's rights to fly on certain international routes.

The Group may be unable to adequately protect its intellectual property rights or may face intellectual property rights claims that may be costly to resolve or may limit its ability to exploit its intellectual property rights in the future

The Group relies on trademarks and domain name registrations to establish and protect its brand name, tagline, logos and Internet domain name (the "Marks") in various countries, including India, China, Indonesia, Malaysia, Singapore, Thailand and Taiwan. There can be no assurance that the steps taken by the Group in this regard will adequately protect its intellectual property rights and third parties may challenge the Group's exclusive right to use the Marks. The Group's success will also depend on its awareness and ability to prevent third parties from using the Marks without the Group's consent. The Group could incur substantial costs in defending any claims relating to its intellectual property rights. Issues relating to intellectual property rights can be complicated and there is no assurance that disputes will not arise or that any disputes in relation to the Group's intellectual property will be resolved in the Group's favor.

The Group's passenger load factors are subject to seasonality

AirAsia generally records higher revenue from November to January as festivals and school holidays in Malaysia increase AirAsia's passenger load factors. Accordingly, its revenue, operating profit and cash flow is relatively lower between February and May and between July and September due to decreased travel during those months. In Thailand, the peak periods of demand are between November to January as well as in April due to increased leisure travel during those periods. Any prolonged disruption in the Group's operations during such peak periods could materially affect the financial results of the Group.

Risks Relating to the Airline Industry

The airline industry tends to experience adverse financial results during general economic downturns

Since a substantial portion of airline travel, for both business and leisure, is discretionary, the airline industry tends to experience adverse financial results during general economic downturns. The airline industry has been experiencing a decline in traffic due to slower general economic conditions since 2000 which were exacerbated by, among other factors, the lingering impact of the terrorist attacks of September 11, 2001, the subsequent war in Iraq, and the outbreak of SARS in the People's Republic of China, Hong Kong, Singapore, Taiwan, Vietnam and Canada in November 2002. Primarily as a result of the foregoing, the global airline industry experienced substantial losses in 2001, 2002 and 2003. If any similar events or circumstances occur in the future, the Group could be materially and adversely affected.

Terrorist attacks have adversely affected the airline industry and may have a material adverse effect on the airline industry in the future

The terrorist attacks of September 11, 2001 and their aftermath have had a negative impact on the airline industry. The primary effects experienced by the airline industry include increased security and insurance costs, increased concerns about future terrorist attacks, airport shutdowns, flight cancellations and delays due to security breaches and perceived safety threats and significantly reduced passenger traffic and yields due to the subsequent dramatic drop in demand for air travel globally. Terrorist attacks or the fear of such attacks, post-war unrest in Iraq or other world events could result in decreased passenger load factors and yields and could also result in increased costs, such as increased fuel expenses or insurance costs, for the airline industry, including the Group.

The airline industry is characterized by high fixed costs

The airline industry is generally characterized by high fixed costs, primarily related to aircraft operating leases, financing commitments and employee costs. The expenses of each flight do not vary significantly with the number of passengers carried and a relatively small change in the numbers of passengers or in the pricing or traffic mix could have a disproportionate effect on an airline's financial performance.

Risks Relating to Southeast Asia

The Group's operations are concentrated in Southeast Asia, and therefore any downturn in general economic conditions in Southeast Asia could have a material adverse impact on the Group

The Group currently conducts all of its operations, and generates substantially all of its revenue in Southeast Asia. It expects to continue focusing its airline business in Southeast Asia and China for the foreseeable future. As a result, the Group's business depends substantially on the general economic conditions in Southeast Asia.

Beginning in mid-1997, many countries in Southeast Asia experienced significant economic downturns and related difficulties, including:

- reduced or even negative economic growth rates;
- substantial currency depreciations and capital controls;
- increased interest rates and corporate bankruptcies;
- declines in the market values of shares listed on stock exchanges and other assets;
- reduced foreign investments and liquidity shortages; and
- government-imposed austerity measures.

These economic and financial problems were most severe in Indonesia and Thailand, where the Group conducts operations.

There can be no assurance that the improvements in economic conditions in Southeast Asia that have recently taken place will be sustained. The economic crisis and any continuing impact on Southeast Asian economies, or any new adverse economic development in Southeast Asia, could materially and adversely affect the markets in which the Group operates, and consequently its airline business. For example:

- flights may be delayed or cancelled, or traffic rights withdrawn as a result of local economic conditions;
- the Group may not be able to collect payments on its accounts receivable when they are due, or at all;
- the Group's ability to obtain outside funding may be restricted; and
- the Group may not be able to retain or attract qualified personnel.

Any one, or a combination, of these factors could have an adverse impact on the Group.

The Group may be adversely impacted by volatility in social and political conditions in certain Asian countries where it conducts operations

The Group has derived and expects to continue to derive substantially all of its revenues from its operations in various Southeast Asian markets. Volatility in social and political conditions in certain countries in Asia may interrupt, limit or otherwise affect the Group's operations. For example, the terrorist attacks of October 2002, August 2003 and September 2004 in Indonesia have caused increased political, social and economic instability in that country, which may be exacerbated by any additional acts of terrorism in the future. There have been incidences of violence in southern Thailand, near the Thai-Malaysian border and in response martial law has been imposed in Narathiwat, Pattani and Yala provinces. In recent years, certain Asian countries and territories, including Indonesia and other places where the Group operates, have implemented various measures aimed to effect economic or political reforms and changes. Some of these measures, especially where they are unexpected or severe, have led to increased incidents or higher risks of political instability and social unrest. Government-imposed wage and price controls, higher unemployment rates, mandated industry restructuring and trade barriers, such as high tariffs and customs duties, that negatively affect any domestic industry are some examples of events causing increased volatility in social and political conditions in Asia.

Other political and economic uncertainties include but are not limited to the risks of war, riots, expropriation, nationalism, renegotiations or nullification of existing contracts, and changes in interest rates, foreign exchange rates, methods of taxation and import duties and restrictions. In Malaysia, the accession of Datuk Seri Abdullah Ahmad Badawi to the prime ministership of Malaysia on October 31, 2003 following Tun Dr. Mahathir bin Mohamad's resignation after more than 20 years in office, has resulted in certain, and may lead to further, changes in the political, economic and social policies of the Government which have affected, and may continue to affect, the political, economic and social climate. Any change in Government policy, changes to senior positions within the Government and parliament, or any political instability in Malaysia or other countries that may arise from these changes may have a material adverse effect on AirAsia. The Group has no control over these matters and it does not carry political risk or other insurance with respect to losses caused by these matters.

Fluctuations in exchange rates may have a material adverse effect on the Group's business

AirAsia's financial statements are presented in Malaysian Ringgit. Because of the geographic diversity of its business, the Group receives revenue and incurs expenses in a variety of currencies, such as Malaysian Ringgit, Baht, Singapore dollars and Indonesian Rupiah. However, most of its maintenance, aircraft leasing, fuel supply and insurance contracts and all of its purchase contracts with respect to aircraft are denominated in U.S. dollars. Since mid-1997, a number of Asian currencies, such as the Singapore dollar, the Baht and the Indonesian Rupiah, have experienced significant volatility and depreciation during the Asian economic crisis. The Group has not entered into any hedging contracts to hedge fluctuations in exchange rates. Such volatility in the value of local currencies can cause fluctuations in the Group's results of operations and could have a material adverse effect on the Group.

Bank Negara Malaysia has in the past intervened in the foreign exchange market to stabilize the Ringgit and has, since September 2, 1998, maintained a fixed exchange rate of RM3.80 to U.S.$1.00. However, there can be no assurance that Bank Negara Malaysia will, or would be able to so intervene or maintain the fixed exchange rate in the future or that any such intervention or fixed exchange rate would be effective. Changes in the current exchange rate policy may result in significantly higher domestic interest rates, liquidity shortages, capital or further exchange controls, which could have a material adverse effect on AirAsia.

There can be no assurance that the Government will not impose more restrictive or other foreign exchange controls. Any imposition, variation or removal of exchange controls may lead to less independence in the Government's conduct of its domestic monetary policy and increased exposure of the Malaysian economy to the potential risks and vulnerability of external developments in the international markets. Consequently, this may adversely affect the value of the Shares and any dividends payable thereon and the ability of shareholders to liquidate the Shares or repatriate the proceeds from the liquidation of such Shares out of Malaysia.

Risks Relating to the Shares

There has been no prior market for the Shares and a market for the Shares may not develop

The Shares comprise a new issue of securities for which there is currently no public market. There can be no assurance as to the liquidity of any market that may develop for the Shares, the ability of holders to sell their Shares or the prices at which holders would be able to sell their Shares. Application has been made to list the Shares on the Main Board of Bursa Securities. There can be no assurance that the Shares will be accepted for listing and trading. In the event that the Shares are not admitted to the Main Board of Bursa Securities, then the Company will withdraw its application for Admission and the Company will endeavor to return the monies paid in respect of all application for Shares without interest, within 14 days after the Company becomes liable to do so. See "— There may be a delay or failure in trading of the Shares".

The Shares could trade at prices that may be lower than the Institutional Price depending on many factors, including prevailing economic and financial conditions in Malaysia, AirAsia's operating results and the markets for similar securities. The Company and the Sole Bookrunner and Sole Lead Manager have no obligation to make a market in the Shares or to maintain the listing of the Shares on the Main Board of Bursa Securities.

The Company may not be able to pay dividends to its shareholders

The Company's ability to pay dividends or make other distributions to its shareholders may be subject to restrictions contained in future loan agreements which limit dividends without the prior written consent of the lenders, as well as to its having sufficient funds which are not needed to fund its operations, other obligations or business plans. As the Company is a shareholder of its subsidiaries and associated companies, its claims as such will generally rank junior to all other creditors and claimants against its subsidiaries and associated companies. In the event of a subsidiary's and associated company's liquidation, there may not be sufficient assets for the Company to recoup its investment. For a description of the Company's dividend policy, see "Dividends".

The Company is required to comply with restrictions on foreign ownership of its Shares, which may affect the voting rights, liquidity and market price of the Shares

The Company's Articles of Association provide for a 45% limit on non-Malaysian ownership of the Company's issued and paid up share capital. A foreign shareholder whose acquisition of Shares is determined by the Board of Directors to have resulted in this limit being exceeded or to have occurred after the limit had been exceeded, taking into account the time of acquisition of such Shares, shall be entitled to all rights, benefits, powers and privileges and subject to all liabilities, duties and obligations in respect of or arising from such Shares, but shall have no voting rights in respect of such Shares. As a result, the liquidity and market price of the Shares may be adversely affected, particularly when the foreign ownership limit has been reached. The voting rights of the affected Shares will be automatically reinstated when the foreign ownership limit has been restored.

To prevent these foreign ownership limits from being exceeded, which might also adversely affect AirAsia's international traffic rights, the Board of Directors may take various steps. For example, subject to the requisite regulatory approvals, the Board of Directors is authorized to issue new Shares to Malaysians in order to reduce the proportion of Shares owned by non-Malaysians. Such an issuance of new Shares would be limited to 10% of the Company's issued and outstanding share capital and also requires annual renewal of the Board of Directors general mandate by shareholders. However, there can be no assurance that the Company would be able to complete such an issuance of Shares and any such issuance would immediately dilute the Company's then existing shareholders. See "— Risks Relating to the Group — Failure to maintain its international operating rights would have a material adverse effect on AirAsia", "Regulation of the Airline Industry in Malaysia — International Traffic Rights" and "Share Capital".

The market price of the Shares may be volatile, which could cause the value of investors' investments in the Company to decline

The market price of Shares could be affected by several factors, including:

- general market, political and economic conditions;
- changes in earnings estimates and recommendations by financial analysts;
- changes in market valuations of listed stocks in general and other airline stocks in particular;
- changes to government policy, legislation or regulation; and
- general operational and business risks.

In addition, many of the risks described elsewhere in this Offering Circular could materially and adversely affect the market price of the Shares.

The global equity markets have experienced price and volume volatility that has affected the share prices of many companies. Share prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these may adversely affect the market price of the Shares.

Investors in the Initial Public Offering will suffer immediate dilution in net tangible assets

The Institutional Price per Share is higher than the net tangible assets per Share by RM0.90 after the issuance of the new Shares pursuant to the Initial Public Offering. Investors subscribing for Shares in the Initial Public Offering will therefore incur immediate dilution on a net tangible asset per share basis. The issuance of further ordinary shares at prices lower than the then existing net tangible asset per ordinary share would result in further dilution. See "Dilution".

The sale or the possible sale of a substantial number of the Shares in the public market following this Initial Public Offering could adversely affect the price of the Shares

Following the issue of 583,757,800 Shares pursuant to the Initial Public Offering, the Company will have 2,335,031,080 issued and paid-up Shares, of which 700,509,400 Shares, or approximately 30%, will be held by investors participating in the Initial Public Offering, and 1,634,521,680 Shares, or approximately 70%, will be held by the Company's existing shareholders. The Shares sold in the Initial Public Offering will be tradable on the Main Board of Bursa Securities without restriction following listing. If existing shareholders of the Company sell or are perceived as intending to sell a substantial amount of Shares, the market price for the Shares would be adversely affected.

Further, pursuant to the SC Guidelines, the Promoters are not allowed to sell, transfer or assign their shareholdings in the Company amounting in total to 45% of the issued and paid-up share capital of the Company for one year from the date of Admission. For further details on this moratorium, see "Plan of Distribution".

Shareholders' rights under Malaysian law may differ from those in other jurisdictions

The corporate affairs of the Company are governed by Malaysian law and its Memorandum and Articles of Association, and certain principles of law applicable to the Company may differ from those found under the laws of other jurisdiction. In addition, the shareholders of the Company may have different rights protecting their interests under Malaysian law from those which they might have as shareholders of a corporation governed by the laws of other jurisdictions.

After completion of the Initial Public Offering, Tune Air will directly and indirectly own 1,045,344,650 Shares or 44.8%, of the Company's Shares. The obligations under Malaysian law of controlling shareholders and directors in respect of minority shareholders may differ from those in certain other countries. For example, in some U.S. States, controlling shareholders in corporations are subject to fiduciary duties while controlling shareholders in Malaysian corporations are not subject to such duties. Accordingly, the Company's other shareholders may not be able to protect their interests under current Malaysian law to the same extent as elsewhere.

The underwriters will not over-allot Shares or otherwise stabilize the market price of the Shares

Under the securities laws of Malaysia, the International Purchasers, the Joint Managing Underwriters and the Joint Bookrunners are prohibited from over-alloting the Shares or taking other actions to stabilize or maintain the market price of the Shares at levels which might not otherwise prevail in the open market, as is commonly done in other securities markets in the 30 day period immediately following the date of commencement of dealing in securities on the relevant exchange. As a result, the market price of the Shares will be more susceptible to a decline than if such underwriters were permitted to take such actions.

There may be a delay or failure in trading of the Shares

The occurrence of any one or more of the following events may cause a delay in or termination of the trading of the Shares on the Main Board of Bursa Securities:

(a) the identified investors failing to subscribe to the portion of Shares to be placed to them;

(b) the Sole Bookrunner and Sole Lead Manager, the Joint Bookrunners and/or the Joint Managing Underwriters exercising their rights pursuant to the International Institutional Underwriting Agreement, Malaysian Institutional Placement Agreement and the Malaysian Retail Underwriting Agreement (each as defined herein), as the case may be, to discharge themselves from their obligations thereunder; or

(c) the Company being unable to meet the public spread requirement, that is, at least 25% of the issued and paid-up capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each, upon completion of the Initial Public Offering, and at the point of the Listing.

There is a 24-day gap between the pricing of the Shares on the Price Determination Date and the trading of the Shares, which is expected to commence on or about November 22, 2004. After the Shares have been allocated to investors' CDS Accounts in the Depository, which would occur at least three clear Market Days prior to the anticipated date for Admission, it may not be possible to recover monies paid in respect of these Shares from the Company in the event the Admission and the commencement of trading on the Main Board of Bursa Securities do not occur. Delays in the Admission and the commencement of trading in shares on Bursa Securities have occurred previously. In order for the Company to return monies to investors in respect of Issue Shares following their allotment, a return of monies to all holders of Shares could be achieved by way of a cancellation of capital pursuant to the relevant provisions of the Companies Act, 1965 of Malaysia (the "Companies Act") and the rules made pursuant thereto. Such cancellation would essentially require the confirmation of the High Court of Malaya but preceded by the sanction of the members of the Company in general meeting.

Other Risks

The Company's actual results may vary significantly from the consolidated profit forecast set forth herein

In accordance with the requirements of the SC in public offerings conducted in Malaysia, a profit forecast has been prepared for inclusion in the Malaysian Prospectus. Such forecast of the Company's consolidated profit after tax for the year ending June 30, 2005 is set out in "Future Financial Information". The profit forecast is based on the assumptions made by the Directors and management of the Company (including assumptions with respect to the average number of aircraft the Group intends to operate and the Group's effective jet fuel costs) and is presented on a basis consistent with the accounting policies adopted by the Company. Furthermore, it reflects the current judgment of the Directors and management regarding expected conditions and the Group's expected course of action, which is subject to change.

The profit forecast is based on a number of assumptions which are inherently subject to significant uncertainty due to factors including, but not limited to, those identified in "Forward-looking Statements" and elsewhere in "Risk Factors". Many of these factors are not within the Group's control and some of the assumptions with respect to future business decisions and strategies are subject to change. AirAsia's actual results will differ from such forecast and such differences may be material and may affect the market price of the Shares. In addition, the Retail Price and the Institutional Price are lower than that assumed in the profit forecast. Under no circumstances should the inclusion of the consolidated profit forecast be regarded as a representation, warranty or prediction with respect to its accuracy or the accuracy of the underlying assumptions, or that AirAsia will achieve or is likely to achieve any particular result. There can be no assurance that AirAsia's actual results will not vary significantly from the profit forecast set forth herein.

The profit forecast was not prepared with a view to complying with the published guidelines of the U.S. Securities and Exchange Commission or the American Institute of Certified Public Accountants ("AICPA") regarding projections or estimations or U.S. GAAP and has not been examined or otherwise reported upon by the Company's independent auditors under the AICPA guidelines regarding estimates or projections.

The Company does not intend to provide any updated or otherwise revised consolidated profit forecast. Prospective investors in the Company are cautioned to place no reliance on the consolidated profit forecast. The consolidated profit forecast should be reviewed in conjunction with the description of the business, the historical financial information and the other material contained in the Offering Circular, including the information set forth elsewhere in "Risk Factors".

Malaysian accounting, corporate and other disclosure standards differ from those in other jurisdictions and changes are proposed to MAAS

The consolidated financial statements of the Company are prepared in accordance with MAAS, which differs in certain significant respects from U.S. GAAP. As a result, the Company's consolidated financial statements and reported earnings could be significantly different from those which would be reported under U.S. GAAP. This Offering Circular does not contain a reconciliation of the Company's consolidated financial statements to U.S. GAAP, and there is no assurance that such a reconciliation would not reveal material differences. See "Summary of Certain Differences between MAAS and U.S. GAAP" for a summary of significant accounting differences applicable to AirAsia.

USE OF PROCEEDS

The gross proceeds to the Company arising from the issue of 140,101,900 Issue Shares at the Retail Price of RM1.1625 and 443,655,900 Issue Shares at the Institutional Price of RM1.25 will be used, during the period of 36 months from the date of the Malaysian Prospectus, which was dated October 20, 2004, as set forth below:

	RM millions
Repayment of bank borrowings(1)	94.2
Capital expenditure(2)	100.0
Estimated listing expenses(3)	35.5
Working capital(4) (5)	487.7
Total gross proceeds	717.4

Notes:

(1) The Company had previously obtained an aggregate of RM100 million in loans from Southern Bank Berhad and Public Bank Berhad for the purpose of acquiring four additional aircraft (see "Description of Material Indebtedness and Credit Facilities"). As at June 30, 2004, RM95.5 million of the principal amount of the loans remained outstanding. AirAsia proposes to use part of the proceeds from the issue of the Issue Shares as well as existing cash balances to repay the above mentioned credit facilities. See "Proforma Consolidated Balance Sheets and Capitalization — Capitalization — Note (3)"

(2) AirAsia proposes to use part of the proceeds from the issue of the Issue Shares to fund its planned capital expenditure (including, among other things, the acquisition of aircraft, aircraft spares and construction of a simulator complex)

(3) The estimated listing expenses include professional advisory fees, fees to authorities and issuing house, underwriting commission, selling commission, brokerage fees, printing costs and other expenses incidental to the Initial Public Offering

(4) AirAsia utilizes short-term revolving credit and trade facilities to meet part of its working capital requirements. AirAsia further proposes to utilize part of the proceeds arising from the issue of the Issue Shares to support its business operations that include financing its aircraft lease expenses, administrative and operating expenses

(5) In the event AirAsia purchases or leases additional aircraft from Airbus or Boeing in addition to 12 additional aircraft AirAsia expects to acquire or lease by June 30, 2005, costs associated with deposits and initial progress payments will be paid for with existing cash on hand, which will include the proceeds from the issue of the Issue Shares allocated to working capital. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditure — Planned Capital Expenditure" and "Business — AirAsia's Operations — Fleet — Future Plans"

The Company will not receive any proceeds from the offer and placement of the Offer Shares by the Selling Shareholders. The Company's provision for working capital requirements will be amended to reflect any difference between the Company's actual listing expenses and the estimated expenses of RM35.5 million set forth above. See "Details of the Initial Public Offering — Estimated Expenses of the Initial Public Offering" and "Plan of Distribution".

EXCHANGE RATES

Since September 2, 1998, the Ringgit has been fixed at an exchange rate against the U.S. dollar of U.S.$1.00 to RM3.80. No representation is made that the Ringgit amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated, at any other rate or at all.

As a result of new measures implemented by Bank Negara Malaysia on September 2, 1998, the Malaysian Ringgit is no longer a freely convertible currency. The permission of the Controller of Foreign Exchange is required for payments to non-residents in certain specified circumstances which do not however include the payment of dividends by a Malaysian company relating to its shares. A Malaysian company paying dividends to its non-resident shareholders in excess of RM50,000 is required to report such payments to Bank Negara Malaysia. Such payments are made in Malaysian Ringgit by way of dividend vouchers sent by the Malaysian company to shareholders or (in the case of shares of listed companies which are deposited securities i.e. securities which are deposited with the central depository under the Securities Industry (Central Depositories) Act, 1991) depositors at their respective addresses.

A settlement between non-residents of Malaysia for the sale and purchase of shares in a Malaysian company can be made in Malaysian Ringgit (if settled in Malaysia) or in foreign currency (if settled outside of Malaysia). All payments by residents of Malaysia to non-residents of Malaysia for the purchase of shares in a Malaysian company may be made in Malaysian Ringgit or in foreign currency except the currency of Israel, Serbia and Montenegro.

All dividends and proceeds of sale in Malaysian Ringgit received by or for the account of a non-resident of Malaysia in respect of shares in a Malaysian company must be paid into an external account in Malaysian Ringgit, which may be converted into any foreign currency (other than the currencies of Israel, Serbia and Montenegro) by the bank with whom the external account is maintained and repatriated to such non-resident.

The following table presents the Reference Rates between Baht and U.S. dollars (in Baht per U.S. dollar) for the periods indicated.

Year	Period End	Period Average
1999	37.5200	37.8722
2000	43.2620	40.2012
2001	44.2270	44.4814
2002	43.2400	42.9988
2003	39.6220	41.4825
2004 (up to October 29, 2004)	41.0410	40.3799

Source: Bank of Thailand

Exchange control in Thailand is governed by the Exchange Control Act and ministerial regulations. Under the Exchange Control Act, the Bank of Thailand (the "BOT") is vested with control over all types of foreign exchange transactions in Thailand. The BOT also has power to delegate certain powers to authorized agents, which include commercial banks (i.e. Thai commercial banks and full branches of foreign banks) in Thailand.

The inward remittance of money into Thailand does not require registration with the exchange control authorities. However, the inward remittance of foreign currency into Thailand must be sold to an authorized agent or deposited into a foreign currency account opened with a commercial bank within a specified period. In addition, the relevant form stipulated by the BOT must also be submitted to the BOT through the authorized agent.

No remittance of Baht offshore is permitted without prior BOT approval except in certain cases e.g. remittance of Baht each time is not more than Baht 50,000. The conversion of Baht to United States dollars for the purpose of making some form of payment outside Thailand must be transacted through an authorized agent on behalf of the BOT. Commercial banks are authorized to sell United States dollars for transactions permitted by the BOT, including repatriation of proceeds, after payment of any applicable Thai taxes, arising from the sale of shares, or dividends (in unlimited amounts without the prior permission from the BOT provided the inward investment was declared) and principal and interest payment on offshore loans. However, commercial banks are required to examine the completeness and authenticity of all relevant documents prior to approving the purchase of United States dollars.

Currency transactions that do not fall within commercial banks authorization require further BOT approval. Investment in foreign securities (securities are defined as ordinary/preferential shares, bonds, debentures and other instruments which are evidence of deposit) is one of the transactions which is subjected to a prior approval of the BOT by submitting the required application form and all relevant documents through the commercial bank.

PROFORMA CONSOLIDATED BALANCE SHEETS AND CAPITALIZATION

The following unaudited proforma consolidated financial information has not been prepared or presented in compliance with the published guidelines of Article 11 of Regulation S-X of the SEC for the preparation and presentation of proforma financial information.

Proforma Consolidated Balance Sheets as at June 30, 2004

The proforma consolidated balance sheets of the Company as at June 30, 2004 set out below have been prepared solely for illustrative purposes to show the effects on the audited consolidated balance sheets of the Company as at June 30, 2004, on the assumption that certain events had been effected on that date.

		Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V
	Audited Balance Sheet as at June 30, 2004	After Acquisition of AA International Ltd	After Proforma I and AirAsia's Acquisition of AirAsia Go Holiday and AirAsia Mauritius Limited	After Proforma II and Share Split	After Proforma III and Completion of the Initial Public Offering	After Proforma IV and Exercise of Options granted pursuant to the ESOS(1)
			(RM thousands)			
Non-Current Assets						
Property, plant and equipment	158,456	158,456	158,456	158,456	258,456	258,456
Other investments	108	108	108	108	108	108
Investment in associates	86	10,972	10,972	10,972	10,972	10,972
Goodwill	0	8,502	8,502	8,502	8,502	8,502
Deferred expenditure	4,369	4,369	4,369	4,369	4,369	4,369
	163,019	182,407	182,407	182,407	282,407	282,407
Current assets	186,984	168,418	168,418	168,418	654,901	755,600
Less: Current liabilities	(150,643)	(151,442)	(151,442)	(151,442)	(103,714)	(103,714)
Net Current Assets	36,341	16,976	16,976	16,976	551,187	651,886
Less: Non-Current Liabilities						
Deferred tax liabilities	1,113	1,113	1,113	1,113	1,113	1,113
Hire purchase payables	239	239	239	239	239	239
Borrowings	47,728	47,728	47,728	47,728	0	0
	49,080	49,080	49,080	49,080	1,352	1,352
	150,280	150,303	150,303	150,303	832,242	932,941
Capital and Reserves						
Share capital	175,127	175,127	175,127	175,127	233,503	242,827
Share premium	65,959	65,959	65,959	65,959	689,522	780,897
Accumulated losses	(90,806)	(90,806)	(90,806)	(90,806)	(90,806)	(90,806)
Shareholders' Equity	150,280	150,280	150,280	150,280	832,219	932,918
Minority Interest	0	23	23	23	23	23
	150,280	150,303	150,303	150,303	832,242	932,941
Net tangible assets ("NTA")	150,280	141,801	141,801	141,801	823,740	924,439
NTA per ordinary share (RM)						
— RM1.00 nominal value	0.86	0.81	0.81	—	—	—
— RM0.10 nominal value	—	—	—	0.08	0.35	0.38
Number of ordinary shares (in thousands)						
— RM1.00 nominal value	175,127	175,127	175,127	—	—	—
— RM0.10 nominal value	—	—	—	1,751,270	2,335,031	2,428,271

Note:

(1) Proforma V incorporates the effects of the Company's offer of 93,240,000 share options, representing approximately 4% of the enlarged issued and paid-up share capital of the Company. On the assumption that the maximum number of the share options offered pursuant to the ESOS is 233,503,108, representing 10% of the enlarged issued and paid-up share capital of the Company, the net tangible assets per ordinary share would be RM0.42, based on the exercise price of RM1.08 for the initial 4% and the assumed exercise price of RM1.16 for the subsequent 6%, respectively, of the enlarged issued and paid-up share capital of the Company

Basis Of Preparation

The Proforma Consolidated Balance Sheets have been prepared for illustrative purposes only to show the effects on the audited consolidated balance sheet of the Company as at June 30, 2004, of the transactions and proposals set out below, had the transactions and proposals been effected on that date.

The Proforma Consolidated Balance Sheets have been prepared using the Group's accounting policies for consolidation, which are consistent with those adopted in the preparation of the audited consolidated financial statements for the financial year ended June 30, 2004, as audited by PricewaterhouseCoopers, and are based on the following:

1. The consolidated balance sheet of the Company as at June 30, 2004, based on its audited consolidated financial statements for the year ended June 30, 2004, which have been reported upon without any qualification by PricewaterhouseCoopers.

2. The unaudited balance sheet of AAIL as at June 30, 2004, based on its unaudited management accounts for the period from September 11, 2003 (date of incorporation) to June 30, 2004.

3. The audited balance sheet of Thai AirAsia as at June 30, 2004, based on its audited financial statements for the six months period ended June 30, 2004 which were reported upon without any qualification by PricewaterhouseCoopers ABAS Limited, Thailand.

4. The audited balance sheet of Thai Crunch Time as at June 30, 2004, based on its audited financial statements for the period from April 12, 2004 (date of incorporation) to June 30, 2004 which were reported upon without any qualification by PricewaterhouseCoopers ABAS Limited, Thailand.

5. The unaudited balance sheet of AirAsia Pte. Ltd. ("AAPL") as at June 30, 2004, based on its unaudited management accounts for the period from September 23, 2003 (date of incorporation) to June 30, 2004.

6. The unaudited balance sheet of Thai AirAsia (Hong Kong) Limited ("Thai AirAsia HK") as at June 30, 2004, based on its unaudited management accounts for the period from June 9, 2004 (date of incorporation) to June 30, 2004.

7. The unaudited balance sheet of AirAsia (Hong Kong) Limited ("AirAsia HK") as at June 30, 2004, based on its unaudited management accounts for the period from June 9, 2004 (date of incorporation) to June 30, 2004.

8. The unaudited balance sheet of AirAsia Mauritius Limited ("AirAsia Mauritius") as at August 31, 2004, based on its unaudited management accounts for the period from August 20, 2004 (date of incorporation) to August 31, 2004.

9. The unaudited balance sheet of AirAsia Go Holiday Sdn Bhd ("AirAsia Go Holiday") as at 31 August 2004, based on its unaudited management accounts for the period from August 8, 2004 (date of incorporation) to August 31, 2004.

10. The Proforma Consolidated Balance Sheets of the AAIL Group comprising AAIL and its subsidiary (AirAsia HK) as well as its associated companies (Thai AirAsia, Thai Crunch Time, AAPL and Thai AirAsia HK), were prepared in accordance with the principles of acquisition accounting. The underlying net tangible assets of the companies to be acquired have been recorded at estimated fair value. The resulting goodwill arising from consolidation is recognized in the Balance Sheet. Thai AirAsia, Thai Crunch Time, AAPL and Thai AirAsia HK are included using the equity method of accounting.

11. AirAsia Mauritius and AirAsia Go Holiday are included in the Proforma Consolidated Balance Sheets of AirAsia Berhad using the acquisition method of accounting.

These companies set forth in 5-9 above have recently been incorporated, have no significant operations, and therefore have no significant impact to the Group.

Effects On the Proforma Consolidated Balance Sheets

The Proforma Consolidated Balance Sheets incorporate the effects of the following transactions on the basis and assumptions made by the Directors of the Company as though they were effected on June 30, 2004.

Proforma I incorporates the effects, on the Company's Consolidated Balance Sheet as at June 30, 2004, of the acquisition of the AAIL Group on July 1, 2004, by way of a subscription in cash for 5,260,000 ordinary shares of U.S.$1.00 each for a total consideration of U.S.$5,260,000 (or RM19,988,000) representing 99.8% of the total issued and paid-up share capital of AAIL on the acquisition date.

As a result, AAIL is regarded as the Company's 99.8% owned subsidiary. Accordingly, the AAIL Group has been consolidated using the acquisition method of accounting under Proforma I.

Proforma II incorporates the effects of Proforma I and the Company's acquisition of AirAsia Mauritius and AirAsia Go Holiday.

The Company subscribed in cash for 1 ordinary share of U.S.$1.00 each in AirAsia Mauritius for a total consideration of U.S.$1.00 (or RM3.80) representing 100% of the total issued and paid-up share capital of AirAsia Mauritius.

The Company also subscribed in cash for 200,000 ordinary shares of RM1.00 each in AirAsia Go Holiday for a total consideration of RM200,000 representing 100% of the total issued and paid up share capital of AirAsia Go Holiday.

As a result, AirAsia Mauritius and AirAsia Go Holiday are accounted for using the acquisition method of accounting as a subsidiary of the Company.

Proforma III incorporates the effects of Proforma II and the Share Split of one existing ordinary share of RM1.00 each in the Company into 10 new ordinary shares of RM0.10 each undertaken by the Company.

Proforma IV incorporates the effects of Proforma III and the Initial Public Offering:

Initial Public Offering of 583,757,800 new ordinary shares of nominal value of RM0.10 each in the Company at an issue price of RM1.1625 per share for the Malaysian Retail Offering and an issue price of RM1.25 for the Institutional Offering. The gross proceeds from the issue of the Issue Shares is approximately RM717.4 million. The allocation of ordinary shares between the Malaysian Retail Offering and the Institutional Offering is proposed as follows:

	Number of new ordinary shares at RM0.10 each	Proceeds from the issue of the Issue Shares
	(thousands)	RM (thousands)
Malaysian Retail Offering	140,102	162,868
Institutional Offering	443,656	554,570
Total	583,758	717,438

The proposed utilization of gross proceeds to the Company arising from the issue of 583,757,800 Issue Shares is set forth in "Use of Proceeds."

Proforma V incorporates the effects of Proforma IV and the exercise of Options granted pursuant to the ESOS.

The number of the share options to be granted under the ESOS shall not exceed 10% of the enlarged issued and paid-up share capital of the Company at any one time. Based on the enlarged issued and paid-up share capital of the Company of 2,335,031,080, the assumed maximum number of share options is 233,503,108. The exercise price for the initial 4% and subsequent 6% of the enlarged issued and paid-up share capital of the Company are RM1.08 and RM1.16, respectively.

Prior to the completion of the Initial Public Offering, as reflected in Proforma V, the Company has offered 93,240,000 share options, representing approximately 4% of the enlarged issued and paid-up share capital of the Company, pursuant to the ESOS at an exercise price of RM1.08 per share. The share options are only exercisable one year from the date of offer.

The exchange rates of Ringgit Malaysia for the Group's principal operating currencies used in the Proforma Consolidated Balance Sheets as at June 30, 2004, are assumed to be as follows:

1 United States Dollar:	RM3.8000
1 Baht:	RM0.0929
1 Singapore Dollar:	RM2.2153

Share Capital, Share Premium And Accumulated Losses

Movements in the issued and paid-up share capital, share premium and accumulated losses the Group are as follows:

	Share capital	Share premium	Accumulated losses
	RM (thousands)	RM (thousands)	RM (thousands)
As at June 30, 2004	175,127	65,959	(90,806)
Acquisition of AAIL	0	0	0
Per Proforma Consolidated Balance Sheet I	175,127	65,959	(90,806)
Acquisition of AirAsia Mauritius and AirAsia Go Holiday	0	0	0
Per Proforma Consolidated Balance Sheet II	175,127	65,959	(90,806)
Share split of one (1) existing ordinary share of RM1.00 each into 10 new ordinary shares of RM0.10 each	0	0	0
Per Proforma Consolidated Balance Sheet III	175,127	65,959	(90,806)
Initial public offering of 583,757,800 new ordinary shares of RM0.10 each at an issue price of RM1.1625 per share and RM1.25 per share for the Malaysian Retail Offering and the Institutional Offering, respectively	58,376	623,563	0
Per Proforma Consolidated Balance Sheet IV	233,503	689,522	(90,806)
Exercise of 93,240,000 options granted pursuant to the ESOS at an issue price of RM1.08 per share	9,324	91,375	0
Per Proforma Consolidated Balance Sheet V	242,827	780,897	(90,806)

Capitalization

The following table presents the audited consolidated capitalization of the Company as at June 30, 2004 and as adjusted to reflect the issue of the Issue Shares and the application of the proceeds thereof as described under "Use of Proceeds". This table has been extracted from, and should be read in conjunction with, the financial statements and related notes appearing elsewhere in this Offering Circular. Except as otherwise disclosed below and in "Description of Material Indebtedness and Credit Facilities", there has been no material change in the current liabilities, long-term and deferred liabilities, capital and reserves, or total capitalization of the Company as at June 30, 2004.

	As at June 30, 2004(1)		
	Actual	As adjusted	As adjusted
	(RM thousands) (audited)	(RM thousands) (unaudited)	(U.S.$ thousands) (unaudited)
Cash and cash equivalents	58,589	545,071(2)	143,440
Short-term debt			
Revolving credits (interest bearing)	47,728	—	—
Total short-term debt	47,728	—(3)	—
Long-term debt			
Long-term loans, net of current portion (interest bearing)	47,728	—	—
Total long-term debt	47,728	—(3)	—
Capital and reserves	150,280	832,218	219,005
Total capitalization(4)	187,147	287,147	75,565

Notes:

(1) There are no warrants or convertible notes of the Company or its subsidiaries that are outstanding as at the date of this Offering Circular

(2) This amount is calculated by taking the Company's actual cash and cash equivalents as at June 30, 2004, and adding RM487.7 million of proceeds from the issue of the Issue Shares which will be used for working capital, less RM1.2 million which will be used to partially repay the Company's indebtedness. See Note (3) below

(3) RM1.2 million of the combined short-term and long-term debt will be repaid using existing cash balances prior to the application of RM94.2 million of proceeds from the issue of the Issue Shares, which together will result in the indebtedness being fully repaid

(4) Total capitalization represents the sum of total short-term debt, total long-term debt and capital and reserves less cash and cash equivalents

DIVIDENDS

The Company has not declared or paid any dividends since its inception. The Board does not anticipate that it will declare any dividends for the financial year ending June 30, 2005.

The Company's ability to pay dividends or make other distributions to its shareholders are subject to restrictions contained in its loan agreements which limit dividends without the prior written consent of the lenders, as well as to its having sufficient funds which are not needed to fund its operations, other obligations or business plans. As the Company is a shareholder of its subsidiaries and associated companies, its claims as such will generally rank junior to all other creditors and claimants against its subsidiaries or associated companies. In the event of a subsidiary's or associated company's liquidation, there may not be sufficient assets for the Company to recoup its investment. Please see "Description of Material Indebtedness and Credit Facilities".

The actual dividend that the Directors may recommend or declare in respect of any particular financial year or period will be subject to the foregoing factors and those outlined below as well as any other factors deemed relevant by the Board of Directors. In considering the level of dividend payments, if any, upon recommendation by the Board of Directors, the Company intends to take into account various factors including:

- the level of its cash, gearing, return on equity and retained earnings
- its expected financial performance
- its projected levels of capital expenditure and other investment plans

In addition, under Malaysian law, the level of franking credits or exempt income accounts available to distribute dividends in a tax efficient manner may also limit the amount of dividends. Considering the current financial position of the Company, the Company does not intend to pay any dividends during the year ending June 30, 2005.

Investors should note that all the foregoing statements are merely statements of the Company's present intention and shall not constitute legally binding statements in respect of its future dividends which are subject to modification (including reduction or non-declaration thereof) in the Directors' sole and absolute discretion. The Directors intend to review the Company's dividend policy on an ongoing basis.

No inference should or can be made from any of the foregoing statements as to the Company's actual future profitability or its ability to pay dividends in the future.

DILUTION

AirAsia's net tangible assets as at June 30, 2004, on the assumptions that certain events set forth in Proforma III of "Proforma Consolidated Balance Sheets and Capitalization" had been effected, was RM141.8 million or RM0.08 per Share. Net tangible assets per Share represents total tangible assets less total liabilities, divided by the total number of issued and outstanding Shares as at June 30, 2004. Dilution per share represents the amount per Share paid by investors in this Initial Public Offering less the net tangible assets per Share after giving effect to the Initial Public Offering.

After giving effect to the issuance of and subscription for 140,101,900 Issue Shares at the Retail Price of RM1.1625 and 443,655,900 Issue Shares at the Institutional Price of RM1.25 per Share, respectively, AirAsia's net tangible assets would have been RM823.7 million in the aggregate, or RM0.35 per Share. This is after deducting estimated selling and underwriting commissions relating to the issue of and subscription for 583,757,800 Issue Shares and estimated expenses of the Initial Public Offering. This represents an immediate increase in net tangible value of RM0.27 per Share to existing shareholders and an immediate dilution in net tangible assets of RM0.81 and RM0.90 per Share to new investors under the Malaysian Retail Offering and Institutional Offering, respectively, subscribing for Shares in the Initial Public Offering. The following table illustrates this per share dilution:

Retail Price per Issue Share	RM	1.1625
Institutional Price per Issue Share	RM	1.25
Net tangible assets per Share before the Initial Public Offering(1)	RM	0.08
Increase in net tangible assets per Share attributable to 583,757,800 Issue Shares	RM	0.27
Net tangible assets per Share after the issue of 583,757,800 Issue Shares	RM	0.35
Dilution in net tangible assets per Share to new investors under the Malaysian Retail Offering	RM	0.81
Dilution in net tangible assets per Share to new investors under the Institutional Offering	RM	0.90

Note:

Assuming that certain events set out in Proforma III of the Proforma Consolidated Balance Sheets of the Company had been effected

SELECTED FINANCIAL AND OTHER DATA

The following tables present selected consolidated financial and other data of the Company as at and for the two years ended March 31, 2001, the 15 months ended June 30, 2002, and the two years ended June 30, 2004. This data should be read in conjunction with the audited consolidated financial statements and the related notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other historical financial and operating data which are included elsewhere in this Offering Circular. The consolidated financial statements have been audited by the Company's independent auditors, whose report for each of the two years ended March 31, 2001, the 15 months ended June 30, 2002, and the two years ended June 30, 2004 is included elsewhere herein. The consolidated financial statements are prepared in accordance with MAAS, which differ in certain significant respects from generally accepted accounting principles in certain other countries. The significant differences between MAAS and U.S. GAAP as they relate to the Company are described under "Summary of Certain Differences between MAAS and U.S. GAAP". See also "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates".

Income Statement Data:

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,		
	2000	2001	2002(1)	2003	2004	2004
			(RM thousands)			(U.S.$ thousands)
Revenue	149,285	167,749	217,421	330,040	392,690	103,339
Cost of sales	(171,994)	(176,463)	(208,147)	(288,490)	(279,119)	(73,452)
Gross (loss)/profit	(22,709)	(8,714)	9,274	41,550	113,571	29,887
Sales and marketing expenses	(640)	(409)	(1,499)	(4,361)	(9,411)	(2,477)
Administration expenses	(2,862)	(3,523)	(7,936)	(23,061)	(34,351)	(9,040)
Other operating expenses	(2,573)	(2,048)	(1,445)	(3,758)	(13,054)	(3,435)
Other operating income	566	136	307	1,175	4,563	1,201
(Loss)/profit from operations	(28,218)	(14,558)	(1,299)	11,545	61,318	16,136
Finance costs	(3,075)	(4,559)	(308)	(84)	(3,131)	(824)
Share of losses of an associated company	—	—	—	—	(116)	(31)
(Loss)/profit before taxation	(31,293)	(19,117)	(1,607)	11,461	58,071	15,281
Taxation	(35)	(21)	(56)	7,375	(9,052)	(2,382)
(Loss)/profit after taxation	(31,328)	(19,138)	(1,663)	18,836	49,019	12,899
Minority interests	—	—	—	2	48	13
(Loss)/profit attributable to shareholders	(31,328)	(19,138)	(1,663)	18,838	49,067	12,912
Weighted average number of Shares in issue						
Basic (in thousands)	52,070	52,070	52,070	52,070	76,338	76,338
Diluted(2) (in thousands)	52,070	52,070	58,354	161,286	174,483	174,483
(Loss)/earnings per share (sen)						
Basic	(60.2)	(36.8)	(3.2)	36.2	64.3	16.9
Diluted	(60.2)	(36.8)	(2.8)	11.7	28.1	7.4

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) The weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares

Balance Sheet Data:

	As at March 31,		As at June 30,	As at June 30,		
	2000	2001	2002(1)	2003	2004	2004
	(RM thousands)					(U.S.$ thousands)
Non Current Assets						
Property, plant & equipment	1,451	1,463	6,704	20,048	158,456	41,699
Investment in an associated company	—	—	—	—	86	23
Other investments	—	—	—	6,379	108	28
Deferred expenditure	—	—	6,438	7,574	4,369	1,150
Deferred tax assets	—	—	—	7,500	—	—
	1,451	1,463	13,142	41,501	163,019	42,900
Current Assets						
Deferred share issue expense	—	—	—	—	2,741	721
Inventories (at cost)	2,644	2,765	1,949	2,193	3,947	1,039
Trade and other receivables	9,122	10,510	22,576	46,437	113,947	29,986
Amount owing by holding company	—	—	—	688	—	—
Amount owing by an associated company	—	—	—	—	202	53
Deposit, bank and cash balances	13,538	34,525	13,769	33,503	66,147	17,407
	25,304	47,800	38,294	82,821	186,984	49,206
Current Liabilities						
Trade and other payables	42,204	54,586	48,042	74,686	102,146	26,880
Hire purchase payables	85	85	10	85	128	34
Current tax liabilities	61	72	83	125	439	116
Amount owing to holding company	—	—	78	—	—	—
Amount owing to former holding company	1,641	1,831	—	—	—	—
Amount owing to former related companies	2,256	2,716	648	—	—	—
Amount owing to an associated company	—	—	—	—	202	53
Borrowings (secured)	2,200	2,200	—	—	47,728	12,560
	48,447	61,490	48,861	74,896	150,643	39,643
Net Current (Liabilities)/Assets	(23,143)	(13,690)	(10,567)	7,925	36,341	9,563
Non Current Liabilities						
Deferred tax liabilities	—	—	—	—	1,113	293
Hire purchase payables	111	25	—	348	239	63
Loan from former holding company (unsecured)	64,037	92,726	—	—	—	—
Borrowings (secured)	—	—	—	—	47,728	12,560
	64,148	92,751	—	348	49,080	12,916
	(85,840)	(104,978)	2,575	49,078	150,280	39,547
Capital and Reserves						
Share capital	52,070	52,070	161,286	161,286	175,127	46,086
Share application monies	—	—	—	27,617	—	—
Share premium	—	—	—	—	65,959	17,358
Accumulated losses	(137,910)	(157,048)	(158,711)	(139,873)	(90,806)	(23,897)
Shareholders' Equity	(85,840)	(104,978)	2,575	49,030	150,280	39,547
Minority Interests	—	—	—	48	—	—
	(85,840)	(104,978)	2,575	49,078	150,280	39,547

Note:

In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

Cash Flows and Other Selected Data:

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,		
	2000	2001	2002(1)	2003	2004	2004
			(RM thousands)			(U.S.$ thousands)
Net cash (used in)/generated from operating activities	(18,736)	(2,656)	(11,980)	15,202	28,919	7,610
Net cash used in investing activities	(26)	(633)	(6,554)	(22,276)	(143,848)	(37,855)
Net cash generated from/(used in) financing activities	25,164	24,276	(2,222)	25,847	140,976	37,099
Net increase/(decrease) in cash and cash equivalents	6,402	20,987	(20,756)	18,773	26,047	6,854
Cash and cash equivalents at beginning of financial year	7,136	13,538	34,525	13,769	32,542	8,564
Cash and cash equivalents at end of financial year(2)	13,538	34,525	13,769	32,542	58,589	15,418

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) Excludes fixed deposits pledged as security for banking facilities granted to the Company of RM961,000 and RM7.6 million as at June 30, 2003 and June 30, 2004, respectively

Other Financial Data:

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,		
	2000	2001	2002(1)	2003	2004	2004
			(RM thousands)			(U.S.$ thousands)
Revenue						
Passenger seat sales	41,181	44,041	87,856	195,864	347,971	91,571
Chartered flight revenue	105,844	118,409	123,179	123,061	24,514	6,451
Other revenue	2,260	5,299	6,386	11,115	20,205	5,317
Total revenue	149,285	167,749	217,421	330,040	392,690	103,339
Cost of sales						
Aircraft fuel expenses	(34,477)	(41,417)	(63,980)	(93,581)	(102,707)	(27,028)
Aircraft operating lease expenses	(68,898)	(72,858)	(74,492)	(78,986)	(42,790)	(11,261)
Maintenance and overhaul expenses	(19,598)	(17,828)	(13,804)	(55,876)	(73,778)	(19,415)
Staff costs	(8,248)	(8,340)	(10,626)	(25,496)	(48,403)	(12,738)
User charges and station charges	(23,287)	(18,669)	(24,071)	(21,837)	(9,579)	(2,520)
Others	(17,486)	(17,351)	(21,174)	(12,714)	(1,862)	(490)
Total cost of sales	(171,994)	(176,463)	(208,147)	(288,490)	(279,119)	(73,452)
EBITDAR(2)	41,299	58,921	75,316	94,790	117,031	30,798
EBIT(3)	(28,218)	(14,558)	(1,299)	11,545	61,318	16,136

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) Earnings before interest, taxation, depreciation, amortization and aircraft operating lease expenses. AirAsia believes that EBITDAR provides useful information but should not be considered as an indication of, or as an alternative to, profit attributable to shareholders or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBITDAR in a different manner than AirAsia

(3) Earnings before interest and taxation. AirAsia believes that EBIT provides useful information but should not be considered as an indication of, or as an alternative to, profit attributable to shareholders or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBIT in a different manner than AirAsia

Operating Data (Unaudited):

The following table presents certain unaudited operating data with respect to AirAsia's Malaysian operations.

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,	
	2000	2001	2002(1)	2003	2004
Passengers carried	271,118	290,687	610,738	1,481,097	2,838,822
RPK (millions) (2)	339	363	672	1,539	2,771
ASK (millions) (3)	547	586	1,018	2,086	3,592
Passenger load factor (%) (4)	62	62	66	74	77
Average fares (RM)	207	203	183	147	131
Number of aircraft at year end	2	2	3	7	13
Average number of aircraft	2	2	2.5	5.5	9.5
Number of sectors flown	3,346	3,346	6,521	14,461	25,106
Aircraft utilization (block hours per day) (5)	9.2	10.1	11.2	12.5	12.8
Revenue per RPK (6) (7)					
(RM)	0.205	0.204	0.184	0.151	0.142
(U.S.$)	0.054	0.054	0.049	0.040	0.037
Revenue per ASK (7) (8)					
(RM)	0.127	0.126	0.122	0.111	0.109
(U.S.$)	0.033	0.033	0.032	0.029	0.029
Cost per ASK (9)					
(RM)	0.189	0.160	0.128	0.109	0.094
(U.S.$)	0.050	0.042	0.034	0.029	0.025
Average stage length (kilometers) (10)	1,238	1,327	1,128	975	967

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) Represents revenue passenger kilometers, which is the number of paying passengers carried on scheduled flights multiplied by the number of kilometers those passengers were flown

(3) Represents available seat kilometers, which is the total number of seats available on scheduled flights multiplied by the number of kilometers those seats were flown

(4) Represents the number of passengers as a proportion to the number of seats available for passengers (148 seats available for AirAsia's Boeing 737-300 aircraft)

(5) Represents the average block hours per day per aircraft during the relevant financial year

(6) Calculated as the Company's total revenue divided by RPK

(7) Non-scheduled, chartered flight revenue (amounting to RM79.9 million for the year ended March 31, 2000, RM93.7 million for the year ended March 31, 2001, RM93.5 million for the 15 months ended June 30, 2002, RM97.8 million for the year ended June 30, 2003, and nil for the year ended June 30, 2004) was subtracted from the Company's total revenue for the purpose of this calculation

(8) Calculated as the Company's total revenue divided by ASK

(9) Calculated as total operating expenses (excluding finance costs and taxation) divided by ASK. Costs of sales relating to non-scheduled, chartered flight revenue (amounting to RM74.7 million for the year ended March 31, 2000, RM88.9 million for the year ended March 31, 2001, RM89.0 million for the 15 months ended June 30, 2002, RM93.3 million for the year ended June 30, 2003, and nil for the year ended June 30, 2004) was subtracted from total operating expenses for the purpose of this calculation

(10) Represents the average number of kilometers flown per flight

RESTRUCTURING AND LISTING SCHEME

As an integral part of the Initial Public Offering, the Company undertook the following exercises:

Subscription of Shares in AAIL

On June 5, 2004, the Company entered into a subscription agreement with AAIL for the subscription of 5,260,000 ordinary shares of U.S.$1.00 each in AAIL for a consideration of U.S.$5,260,000 to be satisfied by converting an existing loan of U.S.$5,260,000 owing by AAIL to the Company. As a result of the subscription, AAIL became a 99.8% owned subsidiary of the Company effective July 1, 2004. AAIL has two associated companies, namely Thai AirAsia and AirAsia Pte Ltd, while Thai AirAsia owns 51% of Thai Crunch Time. AAIL has a wholly-owned subsidiary, AirAsia HK, and two associated companies, namely Thai AirAsia and AAPL.

Share Split

On October 6, 2004, the Company undertook a share split which involved a change in the par value of the Company's ordinary shares from RM1.00 to RM0.10 each. After the completion of the share split, the issued and paid-up share capital of the Company had changed from RM175,127,328 comprising 175,127,328 ordinary shares of RM1.00 each to RM175,127,328 comprising 1,751,273,280 fully paid-up ordinary shares of RM0.10 each.

Initial Public Offering

The Company is now undertaking a public issue of 583,757,800 new Shares, representing approximately 25% of the enlarged issued and paid-up share capital of the Company (prior to conversion of options granted pursuant to the ESOS (the "Options")) pursuant to the Initial Public Offering. 116,751,600 Offer Shares are being offered by the Selling Shareholders in the Institutional Offering. The Initial Public Offering was approved by the SC on September 24, 2004 and is subject to the terms and conditions of the Malaysian Prospectus. Details of the Initial Public Offering are as follows:

Malaysian Retail Offering

- 23,350,300 Shares representing approximately 1% of the enlarged issued share capital of the Company (before conversion of Options), are available for application by eligible directors and employees of AirAsia and persons who have contributed to the success of AirAsia at the Retail Price of RM1.1625 per Share;
- 116,751,600 Shares representing approximately 5% of the enlarged issued share capital of the Company (before conversion of Options), are available for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputra individuals, companies, co-operatives, societies and institutions at the Retail Price of RM1.1625 per Share;

Institutional Offering

The Institutional Offering consists of 560,407,500 Shares offered pursuant to the International Institutional Offering and the Malaysian Institutional Offering.

Malaysian Institutional Offering

- 168,122,250 Shares representing approximately 7.2% of the enlarged issued share capital of the Company (before conversion of Options), are available for application by Malaysian institutional and selected investors at the Institutional Price of RM1.25 per Share; and

International Institutional Offering

- 392,285,250 Shares representing approximately 16.8% of the enlarged issued share capital of the Company (before conversion of Options), are available for (i) qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act; and (ii) in transactions outside the United States and Malaysia in reliance on Regulation S under the Securities Act at the Institutional Price of RM1.25 per Share.

The completion of the Malaysian Retail Offering, the International Institutional Offering and the Malaysian Institutional Offering are inter-conditional. There is no minimum subscription amount to be raised from the Initial Public Offering.

Listing and Quotation

An application has been made for the admission of the Company to the Main Board of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company of RM233,503,108 comprising 2,335,031,080 Shares (after the Share Split and Initial Public Offering) on the Main Board of Bursa Securities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of AirAsia's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and the related notes for the two years ended March 31, 2001, the 15 months ended June 30, 2002 and the two years ended June 30, 2004 included elsewhere in this Offering Circular. This discussion and analysis contains data derived from the audited consolidated financial statements and forward-looking statements that involve risks and uncertainties. AirAsia's actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Offering Circular, particularly in "Risk Factors". The consolidated financial statements are prepared in accordance with MAAS, which differ in certain significant respects from generally accepted accounting principles in certain other countries. The significant differences between MAAS and U.S. GAAP as they relate to AirAsia are described under "Summary of Certain Differences between MAAS and U.S. GAAP".

Overview

AirAsia is a leading low-cost carrier in Southeast Asia. The Group focuses on providing high-frequency services on short-haul, point-to-point domestic and international routes. AirAsia began its operations in 1996 as Malaysia's second national carrier, but was unable to sustain profitability under a full-service airline model. In December 2001, Tune Air, a company controlled by certain members of the Company's current senior management, acquired the Company with the intention of transforming it into a profitable low-cost carrier.

Prior to the takeover by Tune Air, AirAsia operated between Kuala Lumpur and four destinations, namely Kota Kinabalu, Kuching, Langkawi and Labuan, in addition to providing charter flights (both on an ad-hoc and a scheduled basis). After the takeover, AirAsia's management increased frequencies on its inherited routes, added two new destinations to Penang and Kota Bahru, eliminated in-flight meals and other amenities, reduced fares to levels significantly below its competitors and began to adjust compensation for all staff, including pilots and flight attendants to emphasize productivity-based pay. AirAsia also expanded its fleet by leasing and purchasing used Boeing 737-300 aircraft. In addition, at the time of Tune Air's takeover, management renegotiated inherited leases for AirAsia's aircraft and reduced aircraft lease rates significantly. It also changed AirAsia's financial year-end from March 31 to June 30. During the 12 months following the change in AirAsia's business model, AirAsia introduced another two new destinations to Kuala Terengganu and Tawau and added frequencies on its existing routes.

Since AirAsia introduced its low-cost carrier business model in January 2002, its passenger volumes and passenger seat sales revenues have significantly increased as AirAsia substantially increased its capacity. AirAsia's passenger volume has increased from approximately 270,000 for the year ended March 31, 2000 to approximately 2.8 million for the year ended June 30, 2004.

Passenger seat sales revenues have increased from RM41.2 million for the year ended March 31, 2000 to RM348.0 million for the year ended June 30, 2004. AirAsia's RPK have increased from 339 million for the year ended March 31, 2000 to 2,771 million for the year ended June 30, 2004, due primarily to an increase in AirAsia's passenger load factor, fleet size, flight frequencies, and new destinations. Passenger load factor was 62% in each of the years ended March 31, 2000 and 2001, 66% for the 15 months ended June 30, 2002, 74% for the year ended June 30, 2003 and 77% for the year ended June 30, 2004. AirAsia's revenue per RPK has decreased from RM0.205 in the year ended March 31, 2000, to RM0.204 in the year ended March 31, 2001, RM0.184 for the 15 months ended June 30, 2002, RM0.151 for the year ended June 30, 2003 and to RM0.142 for the year ended June 30, 2004 due to the decrease in average fares.

The combination of expanding passenger volumes and capacity, increasing passenger load factors and disciplined cost management has enabled AirAsia to transform itself from a loss-making operation into one generating a profit before taxation for each of the years ended June 30, 2003 and 2004. AirAsia's financial results improved from losses before taxation of RM31.3 million for the year ended March 31, 2000, RM19.1 million for the year ended March 31, 2001 and RM1.6 million for the 15 months ended June 30, 2002, to profits before taxation of RM11.5 million for the year ended June 30, 2003 and RM58.1 million for the year ended June 30, 2004.

In November 2003, AAIL, then a company affiliated with AirAsia, entered into a joint venture with Shin Corporation to invest in and operate a low-cost carrier in Thailand. AAIL owns 49% of Thai AirAsia. Since December 2003, AirAsia has managed the operations of Thai AirAsia (which commenced operations in February 2004) for which it receives a monthly fee beginning April 2004. AirAsia has day-to-day financial as well as operational control of Thai AirAsia. Following the Company's acquisition of a 99.8% interest in AAIL effective July 1, 2004 for U.S.$5.26 million (RM20.0 million), the Company obtained a 48.9% indirect interest in Thai AirAsia. As of July 1, 2004, AirAsia will account for its indirect interest in Thai AirAsia in its balance sheet under "Investment in Associates" and for its share of the net profits or losses of Thai AirAsia in its income statement under "Share of Results of Associate". See "Business — Organization". Thai AirAsia's contribution is expected to have a material effect on AirAsia.

On August 30, 2004, AAIL entered into two conditional sale and purchase agreements to acquire a 49% aggregate shareholding interest in PT AWAir for total consideration of U.S.$2.00. PT AWAir is an Indonesian company which has an Indonesian AOC and operated as a full service carrier before suspending operations in March 2002. Completion of the transaction is subject to various conditions including approval by various Indonesian regulatory authorities and further due diligence by AAIL. Assuming the transaction is completed, AirAsia will account for its indirect interest in PT AWAir in the same manner as it accounts for Thai AirAsia; however, the results of PT AWAir would not be expected to have a material impact on the results of AirAsia for the year ending June 30, 2005. Assuming the transaction is completed, AirAsia intends to adopt a low-cost carrier model and operate from a hub at Soekarno-Hatta International Airport in Jakarta. AirAsia could recommence PT AWAir's operations with two aircraft (in addition to the 36 aircraft the Group intends to operate by June 30, 2005) as early as December 2004. PT AWAir could also recommence operation independently prior to completion of the transaction. See "Business — AirAsia's Operations — Route Network — Future Plans".

Significant Factors Affecting AirAsia's Results of Operations

AirAsia's results of operations are affected by a number of factors, the most significant of which are described below.

Low Operating Expenses

AirAsia has low operating expenses primarily because it operates a single type of aircraft with a single class of service, uses a ticketless system and has low aircraft lease and maintenance expenses and a productive workforce. Strict management of AirAsia's costs and expenses is essential to keep AirAsia's fares low. The expenses of each flight do not vary significantly with the number of passengers carried and a relatively small change in the number of passengers or in AirAsia's pricing or traffic mix could have a disproportionate effect on AirAsia's revenues. Since AirAsia changed its business model, its cost per ASK has decreased from RM0.189 (U.S.$0.050) for the year ended March 31, 2000, to RM0.160 (U.S.$0.042) for the year ended March 31 2001, RM0.128 (U.S.$0.034) for the 15 months ended June 30, 2002, RM0.109 (U.S.$0.029) for the year ended June 30, 2003 and to RM0.094 (U.S.$0.025) for the year ended June 30, 2004. As its fleet expands, related fixed costs and variable costs, due to economies of scale, increase at a lower rate than does capacity. Therefore, AirAsia expects its cost per ASK to continue to decrease. See "— Growth".

AirAsia's most significant costs include aircraft fuel expenses, maintenance and overhaul expenses, wages and benefits provided to its employees, aircraft operating lease expenses, airport facilities charges and insurance premiums. As AirAsia's aircraft age and as AirAsia expands its fleet, maintenance expenses are expected to increase significantly. AirAsia's cost of leasing and acquiring additional aircraft has declined during the two years ended June 30, 2004 due to new leases being negotiated at favorable rates and favorable market conditions caused in part by a large supply of used Boeing 737-300 aircraft, but could increase in the future depending upon market conditions.

In the event AirAsia elects to change its fleet type from the Boeing 737-300 aircraft, (see "Business — AirAsia's Operations — Fleet — Future Plans"), AirAsia will incur transition costs (which may be higher if Airbus aircraft are acquired), including in connection with training its pilots, cabin crew and engineers to operate and maintain a new aircraft type. On a longer term basis, operating costs of the new aircraft type may also be higher especially since the new aircraft type would likely be larger than the Boeing 737-300, resulting in higher landing and aeronautical charges, among other things. Expansion may lead to higher operating costs (resulting from higher lease expenses) increased consumption of jet fuel and higher labor and training expenses) in connection with operating a new aircraft type. However, AirAsia believes it will benefit from improved fuel efficiency, higher passenger capacity and lower maintenance costs, which may offset any higher costs of operating the new aircraft type.

Some of AirAsia's expenses, such as aircraft operating leases and certain maintenance agreements, are fixed expenses or capped at certain levels. For example, AirAsia employs a "maintenance-by-the-hour" program for engine maintenance that obliges AirAsia to pay a fixed hourly rate to the contractor based on the number of flight hours of each aircraft. This program makes budgeting more predictable and simplified. See "Business — Competitive Strengths — Low Cost Operations" and "— Maintenance and Spare Parts".

Other expenses, such as fuel, insurance, aeronautical charges and landing and parking expenses are variable depending upon market conditions. Fuel costs are extremely volatile, as they are subject to many global economic and geopolitical factors that can neither be controlled nor accurately predicted. AirAsia actively seeks to hedge its entire fuel supply requirements. However, AirAsia's ability to hedge its exposure to increases in the price of fuel is limited as its fuel hedging agreements contain various limitations, including limitations with respect to fuel price, volume and the duration of the agreements. In addition, AirAsia relies on Petronas for its jet fuel requirements. For the year ended June 30, 2004, 93% of AirAsia's aircraft fuel expenses were purchases of jet fuel from Petronas. AirAsia believes that comparable supply and support is available from other established suppliers. Nevertheless, AirAsia's operations could be adversely affected if it were unable to obtain an adequate supply of jet fuel in a timely manner or on commercial terms acceptable to AirAsia. AirAsia forecasts that its fuel expenses will increase to approximately 43% of its total cost of sales and operating expenses for the year ending June 30, 2005 (compared to 30.6% of its total cost of sales and operating expenses for the year ended June 30, 2004), due to higher fuel prices and higher consumption of fuel. AirAsia has not yet entered into any jet fuel derivative contracts for the Group's expected fuel requirements for any period after June 30, 2005. See "— Market Risk — Fuel Price Risk", "Business — AirAsia's Operations — Fuel" and "Business — Major Suppliers".

In addition, availability and cost of terminal space, landing slots, aircraft parking, aircraft hangars and other airport facilities are fundamental to AirAsia's operations. Significant increases in the costs of any of these facilities could have a material adverse effect on AirAsia.

Passenger Volumes

Attaining high passenger volumes is critical for AirAsia to maintain and increase its revenues from passenger seat sales. AirAsia's average fares have decreased from RM183 for the 15 months ended June 30, 2002 to RM131 for the year ended June 30, 2004, its revenue per RPK has decreased from RM0.184 for the 15 months ended June 30, 2002 to RM0.142 for the year ended June 30, 2004, and its average stage length has decreased from 1,128 kilometers for the 15 months ended June 30, 2002 to 967 kilometers for the year ended June 30, 2004. However, AirAsia's passenger volumes have increased from approximately 0.6 million for the 15 months ended June 30, 2002 to approximately 2.8 million for the year ended June 30, 2004, which has enabled AirAsia's revenues from passenger seat sales to increase from RM87.9 million for the 15 months ended June 30, 2002 to RM348.0 million for the year ended June 30, 2004.

The Economy in Malaysia and Other Countries in Southeast Asia

Passenger volumes and the prices at which AirAsia is able to sell seats are significantly affected by the amount of disposable income available to potential passengers. As a result, the state of Malaysia's economy, as well as the state of the economy in the Southeast Asia generally, has had and is likely to continue to have a material impact on AirAsia's results of operations. See "Industry Overview". Strong economic performance in AirAsia's key customer markets boosts consumer disposable income and may increase passenger load factors and permit AirAsia to increase its fares. Conversely, poor economic performance in key customer markets is likely to reduce passenger load factors and/or require AirAsia to further reduce its fares and, as a result, have a material adverse effect on AirAsia's revenues.

Growth

AirAsia's growth strategy involves increasing the frequency of flights to markets that it currently serves and expanding its route network. Since the launch of its low-cost carrier business model in January 2002, AirAsia has increased its fleet from two aircraft to 17 aircraft as at June 30, 2004, including four aircraft leased to Thai AirAsia. AirAsia is also considering the Proposed Acquisition. AirAsia expects that these aircraft would be delivered over a period of several years, commencing as early as January 2006. Expansion may lead to higher operating costs without generating offsetting revenues (see "— Low Operating Expenses"). For example, AirAsia commonly offers highly discounted fares to stimulate demand on new routes. Expansion into geographic regions where AirAsia has limited operating experience may also have a material adverse effect on its results of operations as AirAsia may face operating, marketing, financial and legal challenges that are different than those it encounters in its existing markets. However, expansion is intended to have a long-term benefit on AirAsia's revenues and results of operations. AirAsia's expansion strategy, among other factors, has caused AirAsia's profitability to improve from a loss before taxation of RM1.6 million for the 15 months ended June 30, 2002 to a profit before taxation of RM58.1 million for the year ended June 30, 2004. With the expiration of the contract for charter services with Lembaga Tabung Haji (the "Lembaga Tabung Haji contract") and Borneo Tours Sdn Bhd (the "Borneo Tours contract"), substantially all of AirAsia's total revenue is expected to be derived from passenger seat sales going forward, while revenues from charter services are expected to decrease as a percentage of total revenue.

The success of AirAsia's growth strategy is contingent on various factors, many of which are outside AirAsia's control. Operational difficulties such as delays in the delivery and deployment of new aircraft, unexpected technical problems with AirAsia's aircraft, difficulties in hiring employees, particularly pilots, and/or the lack of flight simulator training capacity to train newly-hired pilots could have a material adverse effect on AirAsia. AirAsia expects to complete construction of its own flight simulator complex in the first quarter of 2005.

Terrorism and Other Significant Events

Threats or perceived threats of terrorist activity (such as the attacks in the United States in 2001 and in Indonesia in 2002, 2003 and 2004), incidents of violence in Southeast Asia, the war in Iraq and other world events have had a negative impact on the airline and tourism industries in Asia. Industry-wide, both passenger volumes and air fares trended downwards while fuel expenses and insurance premiums have increased in response to these events. In addition, such events have resulted in several governments issuing travel advisories with respect to several of the Group's destinations, including Thailand and Indonesia. Although these events have had an adverse effect on the passenger volumes of the airline industry generally, AirAsia is unable to specifically quantify the effect they have had on its revenues. AirAsia may lower its fares in an effort to maintain high passenger volumes in response to such events. Any future terrorist attacks or other significant events may have a material adverse effect on AirAsia.

SARS and Other Similar Outbreaks

In November 2002, the outbreak of SARS in the People's Republic of China, Hong Kong, Singapore, Taiwan, Vietnam and Canada resulted in substantial financial losses in the airline industry. Certain countries implemented immigration policies to restrict travelers coming to and from SARS-affected countries or regions, and several airlines reduced flights to certain countries. AirAsia's average fares decreased from RM172 for December 2002 to RM121 for April 2003 primarily as a result of fare reductions introduced to maintain demand. Passenger volumes decreased, especially between March and April 2003 when monthly passenger volume decreased from approximately 147,000 to approximately 123,000. In response, AirAsia increased its advertising and offered promotional prices to stimulate demand for air travel. Passenger volume increased to approximately 148,000 in May 2003.

Since the initial SARS outbreak, there have been new cases reported in Asia in January and April 2004. Any significant recurrence of SARS in the countries where AirAsia operates or elsewhere, or any similar outbreak of disease, could have a material adverse effect on demand for AirAsia's scheduled passenger services and its revenues.

Competition

At present, AirAsia is the only low-cost carrier operating out of KLIA that serves the Malaysian market. However, AirAsia competes with MAS on its domestic flights within Malaysia, as well as with other full-service airlines (such as Garuda and Singapore Airlines) and low-cost carriers that operate in Southeast Asia. Increased competition from any of these competitors or the entry of any new competitors could materially and adversely affect AirAsia. For example, increased competition could encourage deeper fare discounts and may cause AirAsia to revise its cost structure and/or more aggressively develop new revenue streams. However, AirAsia believes that its strict adherence to its low-cost business model, which has enabled it to be profitable while offering low fares, is a significant competitive advantage.

Although AirAsia competes with full-service carriers, since air transportation has historically been affordable only to the higher income segment of Malaysia and other markets it serves, AirAsia believes that its low-cost, low-fare business model has the potential to increase the use of air transportation in Malaysia. See "Business — AirAsia's Operations — Competition".

Regulation

AirAsia's financial performance is significantly affected by government regulation of the Malaysian domestic and international aviation industry. Substantially all aspects of AirAsia's domestic airline operations in Malaysia, including slots allocation, granting of rights under Malaysia's air services agreements ("ASAs") and issuance of AOCs, are subject to regulation by DCA. Accordingly, AirAsia's operating and financial performance is significantly affected by government regulation of the Malaysian domestic and international aviation industry. See "Regulation of the Airline Industry in Malaysia".

AirAsia's growth strategy involves both increasing the frequency of flights to markets that it currently serves and expanding the number of markets that it serves. Ultimately the success of this growth strategy depends upon obtaining additional traffic rights to suitable airports located in AirAsia's targeted geographic markets. Historically, AirAsia has been granted most of the air traffic rights it has requested and has not had any of its rights revoked, but this may not be the case in the future.

Results of Significant Associate

Effective July 1, 2004, the Company acquired a 99.8% interest in AAIL. As a result of this acquisition, the Company obtained a 48.9% indirect interest in Thai AirAsia. AirAsia will recognize its share of the net profits or losses of Thai AirAsia in a line item on AirAsia's income statement called "Share of profits/losses of an associated company".

AirAsia manages Thai AirAsia and has day-to-day financial and operational control of Thai AirAsia. Thai AirAsia also follows the same low-cost carrier business model as AirAsia. As a result, Thai AirAsia's net profits are significantly affected by factors similar to the factors described above which affect AirAsia. Thai AirAsia competes with THAI on its domestic flights within Thailand, as well as with other full-service airlines. Low-cost carriers that will directly compete with Thai AirAsia on some of its routes include Nok Air (backed by THAI), Valuair and Tiger Airways (a joint venture between Singapore Airlines and the founder of Ryanair). Most recently, Qantas Airways is working to establish a Singapore-based low-cost carrier similar to its recently launched JetStar operation in Australia.

In addition, the following factors have affected and/or may have a material effect Thai AirAsia's results of operations, and as a result, AirAsia's profit before taxation:

- Thai AirAsia's ability to maintain high passenger volumes and low operating expenses;
- the economy in Thailand;
- any recurrence of SARS or a similar outbreak of disease;
- Thai AirAsia's ability to expand its operations;
- acts of terrorism, civil unrest and other significant events; and
- regulation by the Civil Aviation Board of Thailand.

AirAsia's expansion strategy includes replicating its joint venture model with partners in other regional markets. AirAsia expects that it would account for such investments similarly to its investment in Thai AirAsia, and that the results of operations of such associates would be affected by similar factors as those which currently affect AirAsia.

For a discussion of Thai AirAsia's business, see "Business — Thai AirAsia's Operations".

Results of Operations

The table below shows AirAsia's income statement, the components of which are expressed as a percentage of total revenue, for the periods indicated.

	For the year ended March 31,				For the 15 months ended June 30,		For the year ended June 30,				
	2000		2001		2002		2003		2004		
		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue			Percentage of total revenue
	(RM thousands)	(%)	(RM thousands)	(%)	(RM thousands) (audited)	(%)	(RM thousands)	(%)	(RM thousands)	(U.S.$ thousands)	(%)
Revenues											
Passenger seat sales	41,181	27.6	44,041	26.3	87,856	40.4	195,864	59.3	347,971	91,571	88.6
Chartered flight revenue	105,844	70.9	118,409	70.6	123,179	56.7	123,061	37.3	24,514	6,451	6.3
Other revenue	2,260	1.5	5,299	3.1	6,386	2.9	11,115	3.4	20,205	5,317	5.1
Total	149,285	100.0	167,749	100.0	217,421	100.0	330,040	100.0	392,690	103,339	100.0
Cost of sales	(171,994)	115.2	(176,463)	105.2	(208,147)	95.7	(288,490)	87.4	(279,119)	(73,452)	71.1
Gross (loss)/profit	(22,709)	15.2	(8,714)	5.2	9,274	4.3	41,550	12.6	113,571	29,887	28.9
Sales and marketing expenses	(640)	0.4	(409)	0.2	(1,499)	0.7	(4,361)	1.3	(9,411)	(2,477)	2.4
Administration expenses	(2,862)	1.9	(3,523)	2.2	(7,936)	3.6	(23,061)	7.0	(34,351)	(9,040)	8.7
Other operating expenses	(2,573)	1.8	(2,048)	1.2	(1,445)	0.7	(3,758)	1.1	(13,054)	(3,435)	3.3
Other operating income	566	0.4	136	0.1	307	0.1	1,175	0.3	4,563	1,201	1.1
(Loss)/profit from operations	(28,218)	18.9	(14,558)	8.7	(1,299)	0.6	11,545	3.5	61,318	16,136	15.6
Finance costs	(3,075)	2.1	(4,559)	2.7	(308)	0.1	(84)	—	(3,131)	(824)	0.8
Share of losses of an associated company	—	—	—	—	—	—	—	—	(116)	(31)	—
(Loss)/profit before taxation	(31,293)	21.0	(19,117)	11.4	(1,607)	0.7	11,461	3.5	58,071	15,281	14.8
Taxation	(35)	—	(21)	—	(56)	—	7,375	2.2	(9,052)	(2,382)	2.3
(Loss)/profit after taxation	(31,328)	21.0	(19,138)	11.4	(1,663)	0.7	18,836	5.7	49,019	12,899	12.5
Minority interests	—	—	—	—	—	—	2	—	48	13	—
(Loss)/profit attributable to shareholders	(31,328)	21.0	(19,138)	11.4	(1,663)	0.7	18,838	5.7	49,067	12,913	12.5

Revenue

AirAsia's revenue comprises revenue from passenger seat sales, chartered flight revenue and other revenue.

Passenger Seat Sales

Passenger seat sales revenue consists solely of revenues from seat sales related to AirAsia's scheduled air travel services. Revenues from this segment vary depending on AirAsia's passenger volume and the prices at which AirAsia sells each seat.

The following table presents certain unaudited operating data with respect to AirAsia's Malaysian operations.

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,	
	2000	2001	2002(1)	2003	2004
Passengers carried	271,118	290,687	610,738	1,481,097	2,838,822
RPK (millions)(2)	339	363	672	1,539	2,771
ASK (millions)(3)	547	586	1,018	2,086	3,592
Passenger load factor (%)(4)	62	62	66	74	77
Average fares (RM)	207	203	183	147	131
Number of aircraft at year end	2	2	3	7	13
Average number of aircraft	2	2	2.5	5.5	9.5
Number of sectors flown	3,346	3,346	6,521	14,461	25,106
Aircraft utilization (block hours per day)(5)	9.2	10.1	11.2	12.5	12.8
Revenue per RPK(6)(7)					
(RM)	0.205	0.204	0.184	0.151	0.142
(U.S.$)	0.054	0.054	0.049	0.040	0.037
Revenue per ASK(7)(8)					
(RM)	0.127	0.126	0.122	0.111	0.109
(U.S.$)	0.033	0.033	0.032	0.029	0.029
Cost per ASK(9)					
(RM)	0.189	0.160	0.128	0.109	0.094
(U.S.$)	0.050	0.042	0.034	0.029	0.025
Average stage length (kilometers)(10)	1,238	1,327	1,128	975	967

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) Represents revenue passenger kilometers, which is the number of paying passengers carried on scheduled flights multiplied by the number of kilometers those passengers were flown

(3) Represents available seat kilometers, which is the total number of seats available on scheduled flights multiplied by the number of kilometers those seats were flown

(4) Represents the number of passengers as a proportion to the number of seats available for passengers (148 seats available for AirAsia's Boeing 737-300 aircraft)

(5) Represents the average block hours per day per aircraft during the relevant financial year

(6) Calculated as the Company's total revenue divided by RPK

(7) Non-scheduled, chartered flight revenue (amounting to RM79.9 million for the year ended March 31, 2000, RM93.7 million for the year ended March 31, 2001, RM93.5 million for the 15 months ended June 30, 2002, RM97.8 million for the year ended June 30, 2003, and nil for the year ended June 30, 2004) was subtracted from the Company's total revenue for the purpose of this calculation

(8) Calculated as the Company's total revenue divided by ASK

(9) Calculated as total operating expenses (excluding finance costs and taxation) divided by ASK. Costs of sales relating to non-scheduled, chartered flight revenue (amounting to RM74.7 million for the year ended March 31, 2000, RM88.9 million for the year ended March 31 2001, RM89.0 million for the 15 months ended June 30, 2002, RM93.3 million for the year ended June 30, 2003, and nil for the year ended June 30, 2004) was subtracted from total operating expenses for the purpose of this calculation

(10) Represents the average number of kilometers flown per flight

Chartered Flight Revenue

Chartered flight revenue consists of revenues from AirAsia's provision of charter services. Most of the revenue from this segment comes from charter service contracts which apply to a two or three year period, such as the contract with the Malaysian government for the provision of a minimum number of seats on specified routes to Angkatan Tentera Malaysia (the Malaysian armed forces) (the "ATM contract"). AirAsia provided scheduled chartered flights to Lembaga Tabung Haji pursuant to the Lembaga Tabung Haji contract which expired in June 2003 and to Borneo Tours Sdn Bhd pursuant to the Borneo Tours contract which expired in June 2004 (see "Business — AirAsia's Operations — Charter and Contract Services"). Chartered flight revenue in any period depends upon the number and terms of the charter service contracts active in such period, and as a result revenue from this segment may fluctuate significantly in any period. AirAsia expects its revenue from chartered flights to decrease next year as the Borneo Tours contract, which contributed RM4.5 million for the year ended June 30, 2004, expired in June 2004.

Other Revenue

Other revenue includes fees for AirAsia's freight services, cancellation fees, excess baggage fees, sales of in-flight merchandise and food and other items. Except for revenues from freight services, other revenue is primarily affected by AirAsia's passenger load factors.

Cost of Sales and Operating Expenses

The following table presents AirAsia's cost of sales and operating expenses, which are also expressed as a percentage of total cost of sales and operating expenses, for the periods indicated.

	For the year ended March 31,				For the 15 months ended June 30,		For the year ended June 30,				
	2000		2001		2002(1)		2003		2004		
		Percentage of total cost of sales and operating expenses		Percentage of total cost of sales and operating expenses		Percentage of total cost of sales and operating expenses		Percentage of total cost of sales and operating expenses			Percentage of total cost of sales and operating expenses
	(RM thousands)	(%)	(RM thousands)	(%)	(RM thousands)	(%)	(RM thousands)	(%)	(RM thousands)	(U.S.$ thousands)	(%)
Cost of sales											
Aircraft fuel expenses	34,477	19.4	41,417	22.7	63,980	29.2	93,581	29.3	102,707	27,028	30.6
Aircraft operating lease expenses	68,898	38.7	72,858	39.9	74,492	34.0	78,986	24.7	42,790	11,261	12.7
Maintenance and overhaul expenses	19,598	11.0	17,828	9.8	13,804	6.3	55,876	17.5	73,778	19,415	22.0
Staff costs	8,248	4.6	8,340	4.6	10,626	4.9	25,496	8.0	48,403	12,738	14.4
User charges and station expenses	23,287	13.1	18,669	10.2	24,071	11.0	21,837	6.7	9,579	2,521	2.9
Others	17,486	9.8	17,351	9.5	21,174	9.6	12,714	4.0	1,862	489	0.5
Total cost of sales	171,994	96.6	176,463	96.7	208,147	95.0	288,490	90.2	279,119	73,452	83.1
Operating expenses											
Sales and marketing expenses	640	0.4	409	0.2	1,499	0.7	4,361	1.4	9,411	2,477	2.8
Administration expenses	2,862	1.6	3,523	1.9	7,936	3.6	23,061	7.2	34,351	9,040	10.2
Other operating expenses	2,573	1.4	2,048	1.2	1,445	0.7	3,758	1.2	13,054	3,435	3.9
Total operating expenses	6,075	3.4	5,980	3.3	10,880	5.0	31,180	9.8	56,816	14,952	16.9
Total cost of sales and operating expenses	178,069	100.0	182,443	100.0	219,027	100.0	319,670	100.0	335,935	88,404	100.0

Cost of Sales

Aircraft fuel expenses consist of the costs of fuel and oil that AirAsia purchases in connection with its scheduled and charter air travel services (see "— Market Risk — Fuel Price Risk" and "Business — AirAsia's Operations").

Aircraft operating lease expenses consist of the costs of leasing AirAsia's aircraft.

Maintenance and overhaul expenses primarily consist of all the costs of maintaining, repairing and overhauling all of AirAsia's aircraft and engines, technical handling fees in relation to pre-flight inspections and the costs of aircraft spare parts and other equipment.

Staff costs consist of salaries, performance-based bonuses, sector allowances, allowances for various technical certifications, medical reimbursements and employee provident fund and other mandatory contributions made to or on behalf of AirAsia's employees. This component of cost of sales does not include staff costs for AirAsia's administrative and sales and marketing employees, which is included under administration expenses.

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

Other cost of sales primarily consist of aviation insurance premiums, costs of meals, costs of merchandise sold during AirAsia's scheduled air travel services, aircraft delivery costs, the fee for using

OpenSkies by Navitaire, AirAsia's inventory and sales management system, credit card commissions, commissions to call center agents and retail outlets, costs related to AirAsia's flight planning and communicating system, and other flight operating costs. AirAsia partially offsets these costs by including within this expense item the monies it receives from passengers for an insurance surcharge (currently RM5 per passenger), an administrative surcharge (currently RM8 per passenger) and a charge for using the Nationwide Call Center (currently RM2 per passenger).

Operating Expenses

Sales and marketing expenses primarily consist of print, radio and television advertising expenses as well as other marketing expenses.

Administration expenses include staff costs for administrative and sales and marketing staff, office rental expenses, telephone and printing costs, consultant and professional fees, travel and accommodation expenses, training expenses and other administration expenses.

Other operating expenses consist of expenses for depreciating AirAsia's aircraft and engineering parts and other furnishings, fittings and computer equipment as well as provision for doubtful debts.

Other Operating Income

Other operating income includes management fees AirAsia receives for managing Thai AirAsia's operations, interest income, gains on disposals of short-term investments, aircraft advertising income and, until December 2001, rental income from the lease of a lounge at KLIA. See "Related Party Transactions".

Taxation

Malaysia's corporate income tax rate is 28%. However, AirAsia has not paid any income tax since inception (except for tax on interest and rental income which is separately assessed for income tax purposes) as a result of losses it incurred from inception to June 30, 2002. To promote development and growth of certain industries, the Malaysian Government may exempt identified businesses that qualify as Approved Service Projects under Section 127(3) of the Income Tax Act 1967 from corporate income tax. The Company was granted this incentive for five years ended December 31, 2002.

Under Malaysian law, tax losses and unutilized capital allowances can be carried forward indefinitely to offset future taxable income. AirAsia offsets all potential taxable income with its unused capital allowances in the two years ended June 30, 2004. As at June 30, 2004, subject to approval by the Inland Revenue Board, AirAsia had approximately RM36.9 million and RM39.4 million of unabsorbed tax losses and unutilized capital allowances, respectively, available to offset taxable income in future.

The Company has made an application to the Government for a tax exemption on the basis that AirAsia should continue to be considered an Approved Service Project. If the Company receives this exemption, it would not be subject to taxation for a period to be determined by the Government. It is unknown when or whether the exemption is likely to be approved. If the exemption were not obtained, AirAsia would be exposed to potential tax liability that it estimates would be approximately RM10.0 million for the year ending June 30, 2005.

Year Ended June 30, 2004 Compared to Year Ended June 30, 2003

Revenue

Revenue increased by 19.0% from RM330.0 million for the year ended June 30, 2003 to RM392.7 million for the year ended June 30, 2004. This increase was primarily attributable to an increase in revenue from passenger seat sales, which accounted for 88.6% of total revenues for the year ended June 30, 2004, which was partially offset by a decrease in revenue from chartered flight services.

Passenger Seat Sales

Passenger seat sales increased by 77.7% from RM195.9 million for the year ended June 30, 2003 to RM348.0 million for the year ended June 30, 2004. The total number of passengers for AirAsia's Malaysian operations increased from 1.5 million for the year ended June 30, 2003 to 2.8 million for the year ended June 30, 2004, resulting in an increase in passenger load factor from 74% for the year ended June 30, 2003 to 77% for the year ended June 30, 2004. The increase in passenger seat sales was primarily due to the increase in the frequency of scheduled flights (from 161 flights per week to 301 flights per week), number of destinations flown to (from 10 to 23 destinations), fleet size (from seven aircraft to 13 aircraft) and aircraft utilization. The increase in passenger volume more than offset a decrease in average fare price, from RM147 for the year ended June 30, 2003 to RM131 for the year ended June 30, 2004. However, because average stage length was also shorter, revenue per RPK decreased from RM0.151 for the year ended June 2003 to RM0.142 for the year ended June 30, 2004.

Chartered Flight Revenue

Chartered flight revenue decreased by 80.1% from RM123.1 million for the year ended June 30, 2003 to RM24.5 million for the year ended June 30, 2004. This decrease was due primarily to the expiration in June 2003 of the Lembaga Tabung Haji contract, which generated revenues of RM97.8 million in the year ended June 30, 2003.

Other Revenue

Other revenue increased by 81.8% from RM11.1 million for the year ended June 30, 2003 to RM20.2 million for the year ended June 30, 2004. This increase was mainly from a RM2.7 million increase in revenue from excess baggage charges and a RM2.7 million increase in revenue from freight services. Revenue from cancellation fees and sales of in-flight merchandise and food also increased during the year ended June 30, 2004.

Cost of Sales

Cost of sales decreased by 3.2% from RM288.5 million for the year ended June 30, 2003 to RM279.1 million for the year ended June 30, 2004, while cost per ASK decreased from RM0.109 for the year ended June 30, 2003 to RM0.094 for the year ended June 30, 2004. This decrease was due to decreases in aircraft operating lease expenses, user charges and station expenses and other costs, which were partially offset by increases in aircraft fuel expenses, maintenance and overhaul expenses and staff costs.

Aircraft Fuel Expenses

Aircraft fuel expenses increased by 9.8% from RM93.6 million for the year ended June 30, 2003 to RM102.7 million for the year ended June 30, 2004. This increase was primarily attributable to a 80.6% increase in fuel consumption from increased scheduled flights in the year ended June 30, 2004 compared to the year ended June 30, 2003, partially offset by the reduction in fuel consumption for chartered flights resulting from the expiration of the Lembaga Tabung Haji contract on June 30, 2003. In addition, average fuel prices increased from U.S.$0.71 per gallon for the year ended June 30, 2003 to U.S.$0.74 per gallon for the year ended June 30, 2004.

AirAsia's fuel expenses did not increase in proportion to the increase in the market price of fuel because all of its fuel requirements were hedged for the year ended June 30, 2003 while approximately 83% of its fuel requirements were hedged for the year ended June 30, 2004.

Aircraft Operating Lease Expenses

Aircraft operating lease expenses decreased by 45.8% from RM79.0 million for the year ended June 30, 2003 to RM42.8 million for the year ended June 30, 2004. This decrease was primarily because lease expenses for a Boeing 747 aircraft used solely for charter flights to Mecca under the Lembaga Tabung Haji contract were no longer incurred for the year ended June 30, 2004 since the Lembaga Tabung Haji contract expired in June 2003. In addition, although AirAsia had six additional aircraft under lease in the year ended June 30, 2004 than in the year ended June 30, 2003, the impact was partially offset by the reduction of average lease rates as new leases were negotiated at more favorable rates.

Maintenance and Overhaul Expenses

Maintenance and overhaul expenses increased by 32.0% from RM55.9 million for the year ended June 30, 2003 to RM73.8 million for the year ended June 30, 2004. This increase was primarily due to the increase in AirAsia's fleet size from an average of 5.5 aircraft for the year ended June 30, 2003 to an average of 9.5 aircraft for the year ended June 30, 2004. The impact of the larger fleet size was partially offset by economies of scale and the negotiation of maintenance contracts at more favorable rates, which resulted in a decrease in average maintenance and overhaul expenses per aircraft from RM10.2 million per aircraft for the year ended June 30, 2003 to RM7.8 million per aircraft for the year ended June 30, 2004. AirAsia's maintenance and overhaul expenses per ASK decreased from RM0.03 to RM0.02.

Staff Costs

Staff costs increased by 89.8% from RM25.5 million for the year ended June 30, 2003 to RM48.4 million for the year ended June 30, 2004. This increase was primarily due to an increase in the number of employees and a 90.0% increase in salaries and performance-based bonuses paid out.

User Charges and Station Expenses

User charges and station expenses decreased by 56.1% from RM21.8 million for the year ended June 30, 2003 to RM9.6 million for the year ended June 30, 2004. This decrease was primarily because RM5 million in user charges and outsourced ground handling expenses were not incurred for charter flights to Mecca in the year ended June 30, 2004 as the Lembaga Tabung Haji contract expired in June 2003. In addition, other ground handling work was no longer outsourced in the year ended June 30, 2004.

Others

Other costs of sales decreased by 85.4% from RM12.7 million for the year ended June 30, 2003 to RM1.9 million for the year ended June 30, 2004. While credit card commissions increased by RM3.7 million as result of increased purchases made by credit cards, the increase was more than offset by an increase of RM14.0 million from fees derived from AirAsia's administrative and insurance surcharges.

Operating Expenses

Sales and Marketing Expenses

Sales and marketing expenses increased significantly from RM4.4 million for the year ended June 30, 2003 to RM9.4 million for the year ended June 30, 2004. This increase was due to increased print, radio and television advertising expenses as a result of the expansion of AirAsia's operations.

Administration Expenses

Administration expenses increased by 49.0% from RM23.1 million for the year ended June 30, 2003 to RM34.4 million for the year ended June 30, 2004. This increase was primarily due to increases in professional fees paid and expenses for pilot training, an increase in office rental expenses as a result of an increase in the number of offices and sales stations AirAsia operated, an increase in telephone charges and administrative staff costs.

Other Operating Expenses

Other operating expenses increased significantly from RM3.8 million for the year ended June 30, 2003 to RM13.1 million for the year ended June 30, 2004. This increase was primarily due to an increase in the depreciation expenses of aircraft and engineering parts as a result of the increase in AirAsia's fleet size.

Other Operating Income

Other operating income increased significantly from RM1.2 million for the year ended June 30, 2003 to RM4.6 million for the year ended June 30, 2004. This increase was mainly due to increased interest income on short-term investments.

Finance Costs

Finance costs increased significantly from approximately RM0.1 million for the year ended June 30, 2003 to RM3.1 million for the year ended June 30, 2004 primarily due to indebtedness incurred in the year ended June 30, 2004 to finance AirAsia's aircraft purchases.

Share of Losses of an Associated Company

Share of losses of an associated company was RM116,000 for the year ended June 30, 2004 due to losses incurred by Thai Crunch Time, in which Crunchtime Culinery Services Sdn Bhd ("Crunchtime"), a subsidiary of the Company, acquired a 49% stake in April 2004. Thai Crunch Time incurred losses primarily from pre-operating expenses.

Taxation

Taxation expense increased from a tax credit of RM7.4 million for the year ended June 30, 2003 to an expense of RM9.1 million for the year ended June 30, 2004. This increase was primarily the result of the reversal of the deferred tax asset of RM7.5 million arising from unutilized capital allowances recognized in the prior year and the recognition of deferred tax liability on AirAsia's newly acquired aircraft. The reversal of this deferred tax asset was attributable to profits recognized in the current year and the resulting utilization of the tax benefits previously recognized.

Loss/Profit After Taxation

As a result of the foregoing, profit after taxation increased significantly from RM18.8 million for the year ended June 30, 2003 to RM49.0 million for the year ended June 30, 2004.

Year Ended June 30, 2003 Compared to 15 Months Ended June 30, 2002

AirAsia changed its business model in January 2002. In addition, the financial year end was also changed from March 31 to June 30 in 2002 (see "— Overview"). As a result, AirAsia's results of operations between the 15 months ended June 30, 2002 and the year ended June 30, 2003 are not directly comparable.

Revenue

Revenue increased by 51.8% from RM217.4 million for the 15 months ended June 30, 2002 to RM330.0 million for the year ended June 30, 2003. This increase was primarily attributable to the increase in revenue from passenger seat sales, which accounted for 59.3% of total revenue for the year ended June 30, 2003.

Passenger Seat Sales

Passenger seat sales increased by 122.9% from RM87.9 million for the 15 months ended June 30, 2002 to RM195.9 million for the year ended June 30, 2003, despite a decrease in average fare price from RM183 for the 15 months ended June 30, 2002 to RM147 for the year ended June 30, 2003. The total number of passengers increased from 610,738 for the 15 months ended June 30, 2002 to 1,481,097 for the year ended June 30, 2003, resulting in an increase in passenger load factor from 66% for the 15 months ended June 30, 2002 to 74% for the year ended June 30, 2003. The increase in passenger seat sales was primarily due to the change in AirAsia's business model in January 2002, as well as the increase in the frequency of scheduled flights (from 77 flights per week to 161 flights per week), number of destinations flown to (from six to 10 destinations), fleet size (from three aircraft to seven aircraft) and aircraft utilization. However, as a result of lower average fares and shorter average stage length, revenue per RPK decreased from RM0.184 for the 15 months ended June 30, 2002 to RM0.151 for the year ended June 30, 2003.

Chartered Flight Revenue

Chartered flight revenue decreased from RM123.2 million for the 15 months ended June 30, 2002 to RM123.1 million for the year ended June 30, 2003. Although revenues from the ATM contract decreased by 16.0%, this decrease was offset by increases in revenues from other charter contracts, principally the Lembaga Tabung Haji contract.

Other Revenue

Other revenue increased by 74.1% from RM6.4 million for the 15 months ended June 30, 2002 to RM11.1 million for the year ended June 30, 2003. This increase was mainly because of a RM3.6 million increase in revenue from cancellation fees as a result of the increased number of scheduled flights. Revenues from freight services also increased.

Cost of Sales

Cost of sales increased by 38.6% from RM208.1 million for the 15 months ended June 30, 2002 to RM288.5 million for the year ended June 30, 2003, primarily due to increases in aircraft fuel expenses, maintenance and overhaul expenses and staff costs, which were partially offset by decreases in user charges and station expenses and other costs. However, cost per ASK decreased from RM0.128 for the 15 months ended June 30, 2002 to RM0.109 for the year ended June 30, 2003 due to AirAsia's change in business model.

Aircraft Fuel Expenses

Aircraft fuel expenses increased by 46.3% from RM64.0 million for the 15 months ended June 30, 2002 to RM93.6 million for the year ended June 30, 2003. This increase was primarily attributable to an increase in fuel consumption as a result of the increase in the number of scheduled flights for the year ended June 30, 2003 compared to the 15 months ended June 30, 2002, as well as in fuel consumption for chartered flight services (principally for the Lembaga Tabung Haji contract).

Aircraft Operating Lease Expenses

Aircraft operating lease expenses increased by 6.0% from RM74.5 million for the 15 months ended June 30, 2002 to RM79.0 million for the year ended June 30, 2003. This was due to the increase in AirAsia's fleet size from an average of 2.5 aircraft for the 15 months ended June 30, 2002 to an average of 5.5 aircraft for the year ended June 30, 2003, including an additional Boeing 747 used solely for charter flights under the Lembaga Tabung Haji contract. AirAsia negotiated more favorable lease terms for all its aircraft, thus its per aircraft lease expense was lower.

Maintenance and Overhaul Expenses

Maintenance and overhaul expenses increased significantly from RM13.8 million for the 15 months ended June 30, 2002 to RM55.9 million for the year ended June 30, 2003. This increase was primarily due to the increase in AirAsia's fleet size from an average of 2.5 aircraft for the 15 months ended June 30, 2002 to an average of 5.5 aircraft for the year ended June 30, 2003 and the increase in AirAsia's aircraft utilization due to its change in business model. AirAsia's maintenance and overhaul expenses also increased from RM0.01 per ASK to RM0.03 per ASK.

Staff Costs

Staff costs increased significantly from RM10.6 million for the 15 months ended June 30, 2002 to RM25.5 million for the year ended June 30, 2003. This increase was primarily due to an increase in the number of employees and a 140.6% increase in salaries and performance-based bonuses paid out.

User Charges and Station Expenses

User charges and station expenses decreased by 9.3% from RM24.1 million for the 15 months ended June 30, 2002 to RM21.8 million for the year ended June 30, 2003. This decrease was primarily due to lower ground handling fees because AirAsia switched its service provider. This decrease was partially offset by an increase in landing and parking charges, transportation charges and aeronautical charges as a result of AirAsia's increased fleet size and utilization.

Others

Other costs of sales decreased by 40.0% from RM21.2 million for the 15 months ended June 30, 2002 to RM12.7 million for the year ended June 30, 2003. This decrease was mainly due to the receipt of RM13.5 million in offsetting fees derived from AirAsia's administrative and insurance surcharges, as well as a decrease in the cost of meals as a result of the cessation of providing free food on AirAsia's scheduled air travel services. This decrease was partially offset by an increase in AirAsia's aviation insurance premiums in connection with an increase in AirAsia's fleet size.

Operating Expenses

Sales and Marketing Expenses

Sales and marketing expenses increased significantly from RM1.5 million for the 15 months ended June 30, 2002 to RM4.4 million for the year ended June 30, 2003. This increase was due to increased print, radio and television advertising expenses as a result of the expansion of AirAsia's operations.

Administration Expenses

Administration expenses increased significantly from RM7.9 million for the 15 months ended June 30, 2002 to RM23.1 million for the year ended June 30, 2003. This increase was primarily due to increased headcount for administrative and sales and marketing staff, which accounted for an additional RM10.5 million, and an increase in office rental expenses because of an increase in the number of offices and sales stations AirAsia operated.

Other Operating Expenses

Other operating expenses increased significantly from RM1.4 million for the 15 months ended June 30, 2002 to RM3.8 million for the year ended June 30, 2003. This increase was primarily due to an increase in the depreciation expenses of engineering parts as a result of the increase in AirAsia's fleet size.

Other Operating Income

Other operating income increased from RM0.3 million for the 15 months ended June 30, 2002 to RM1.2 million for the year ended June 30, 2003. This increase was mainly due to a gain on disposals of short-term investments and advertising income received for the first time in 2003.

Finance Costs

Repayment of certain loans contributed to a decrease in finance costs from RM0.3 million for the 15 months ended June 30, 2002 to approximately RM0.1 million for the year ended June 30, 2003.

Taxation

Taxation expense improved significantly from RM56,000 for the 15 months ended June 30, 2002 to a tax credit of RM7.4 million for the year ended June 30, 2003. This decrease was the result of AirAsia's recognition of a deferred tax asset of RM7.5 million arising from unutilized capital allowances. The credit primarily arising from the recognition of the deferred tax asset was slightly offset by the current tax expense of RM125,000 relating to interest and rental income.

Loss/Profit After Taxation

As a result of the foregoing, profit after taxation increased from a loss of RM1.7 million for the 15 months ended June 30, 2002 to a profit of RM18.8 million for the year ended June 30, 2003.

Liquidity and Capital Resources

Cash Flows

Year Ended June 30, 2004 Compared to Year Ended June 30, 2003

Net cash generated from operating activities increased by RM13.7 million from RM15.2 million for the year ended June 30, 2003 to RM28.9 million for the year ended June 30, 2004. This significant improvement in cash from operating activities was primarily due to a RM46.6 million increase in profit before taxation. This increase was partially offset by a RM29.1 million increase in deposits on aircraft operating leases as a result of the increase in AirAsia's fleet size and for jet fuel derivative contracts and a RM40.2 million increase in other receivables, which includes among other items RM17.0 million in expenses incurred and payments made on behalf of Thai AirAsia for its operations and RM20.0 million in advances to AAIL to establish the joint venture with Shin Corporation relating to Thai AirAsia.

Net cash used in investing activities increased by RM121.5 million from RM22.3 million for the year ended June 30, 2003 to RM143.8 million for the year ended June 30, 2004. The increase was primarily attributable to cash used to purchase four aircraft during the year.

Net cash generated from financing activities increased by RM115.2 million from RM25.8 million for the year ended June 30, 2003 to RM141.0 million for the year ended June 30, 2004. The increase was primarily due to indebtedness incurred in the year ended June 30, 2004 to finance aircraft purchased during the year as well as proceeds received for allotment of new shares.

Year Ended June 30, 2003 Compared to 15 Months Ended June 30, 2002

Net cash used in operating activities was RM12.0 million for the 15 months ended June 30, 2002, and net cash generated from operating activities was RM15.2 million for the year ended June 30, 2003. This significant improvement in cash from operating activities was primarily due to a RM24.8 million increase in trade and other payables as a result of the increase in AirAsia's fleet size, among other factors related to AirAsia's expansion and a RM13.1 million increase in profit before taxation. This increase was partially offset by a RM26.3 million increase in trade and other receivables, which was a result of increased deposits on new aircraft acquired under operating leases and increased insurance prepayments as AirAsia's business continued to expand.

Net cash used in investing activities increased by RM15.7 million from RM6.6 million for the 15 months ended June 30, 2002 to RM22.3 million for the year ended June 30, 2003. The increase was primarily attributable to an increase in the purchase of engineering equipment and short-term investments.

Net cash used in financing activities was RM2.2 million for the 15 months ended June 30, 2002, and net cash generated from financing activities was RM25.8 million for the year ended June 30, 2003. The change was primarily due to the receipt of RM27.6 million in share application monies received in advance for shares which were subsequently issued in July 2003.

Working Capital

AirAsia's principal source of liquidity is cash from operations. AirAsia also has certain surplus funds in short-term deposits that it may use for any unforeseen capital or other requirements. As at June 30, 2004, AirAsia had RM32.1 million in short-term deposits. In addition, as at June 30, 2004, AirAsia had an aggregate of RM13.4 million of available credit facilities.

As at June 30, 2002, 2003 and 2004, net working capital, defined as the difference between current assets and current liabilities, was a deficit of RM10.6 million, a surplus of RM7.9 million and a surplus of RM36.3 million, respectively. The Company's Board of Directors believes that after taking into consideration the expected cash generated from operations and proceeds from the issue of the Issue Shares and the banking facilities currently available to it, AirAsia has adequate liquidity and capital resources for its present requirements and the requirements for 12 months following the date hereof.

AirAsia incurs debt to finance its acquisition of aircraft. As at June 30, 2004, its total outstanding debt was RM95.5 million. See "Description of Material Indebtedness and Credit Facilities" for a description of AirAsia's financing arrangements. AirAsia intends to use RM94.2 million of the proceeds from the issue of the Issue Shares (as well as RM1.2 million of existing cash balances) to repay the outstanding balance of this indebtedness.

AirAsia may need to raise capital in the future if its cash flow from operations is not adequate to meet liquidity requirements or if AirAsia acquires additional aircraft or enters into new joint ventures. Depending on capital requirements, market conditions and other factors, AirAsia may raise additional funds through debt or equity offerings or through the sale of assets. In the event that such financing cannot be obtained, AirAsia may be compelled to scale back its plans for future business expansion.

Capital Expenditures

Historical Capital Expenditure

The table below presents AirAsia's capital expenditure for the periods indicated.

	Historical capital expenditure					
	Year ended March 31,		15 months ended June 30,	Year ended June 30,		
	2000	2001	2002	2003	2004	Total
	(RM thousands)					
Aircraft	—	—	—	—	102,120	102,120
Aircraft spare parts, fixture and fittings	—	—	4,073	10,352	8,180	22,605
Office equipment and renovations	87	573	2,238	3,395	6,366	12,659
Aircraft and other assets not in operation(1)	—	—	—	1,246	30,408	31,654
Others(2)	12	60	302	1,828	2,827	5,029
Total	99	633	6,613	16,821	149,901	174,067

Notes:

(1) This item included aircraft and other assets which were not fully paid during the financial year and were not in operation

(2) Others includes furniture and fittings, motor vehicles, operating plant and ground equipment, kitchen equipment and hangar building

Planned Capital Expenditure

AirAsia's budgeted capital expenditures for the year ending June 30, 2005 are summarized in the following table.

	Budgeted capital expenditure for the year ending June 30, 2005
	(RM millions)
Aircraft(1)	68.7
Aircraft spare parts, fixtures and fittings	11.3
Office equipment and renovations	4.9
Construction of flight simulator complex	12.0
Others(2)	3.1
Total	100.0

Notes:

(1) AirAsia expects to purchase three additional aircraft during the year ending June 30, 2005. The first aircraft was delivered in October 2004, the second is expected to be delivered by January 2005 and the third is to be delivered by June 2005. This does not include potential expenditure related to the Proposed Acquisition

(2) Others includes furniture and fittings, motor vehicles, office equipment, office renovation, operating plant and ground equipment, kitchen equipment and hangar building

AirAsia expects to continue to incur substantial capital expenditure, primarily to expand the Group's fleet size to 36 aircraft by June 30, 2005 (see "Business — AirAsia's Operations — Fleet"). AirAsia's plans depend on a number of factors, including changes in economic, political or other conditions in the countries where it operates, or events that have a material adverse effect on the airline and the tourism industry. No assurance can be given that any of these acquisitions will be completed in the expected time frame or within the estimated budget. See "Risks Factors — Risks Relating to the Group — The Group may not be successful in implementing its growth strategy".

AirAsia is considering the Proposed Acquisition. An agreement to purchase aircraft from either Airbus or Boeing could be reached as early as December 2004. In the event AirAsia enters into an agreement to purchase such aircraft (which would be in addition to the three aircraft AirAsia expects to acquire by June 30, 2005) costs associated with deposits and initial progress payments would be paid for with existing cash on hand, which will include proceeds from the issue of the Issue Shares allocated to working capital. AirAsia plans to proceed with the Prospective Acquisition only if it believes that such a purchase would be likely to benefit its shareholders, taking into account, among other things, the economic benefits of any new aircraft type, the routes that could be flown with such aircraft and the Group's ability to secure the necessary approvals to fly such routes, the potential risks and operating difficulties of such aircraft type, whether AirAsia could maintain substantial unrestricted cash balances and whether it would be able to obtain debt or lease financing. AirAsia expects that these aircraft would be delivered over a period of several years, commencing as early as January 2006. See "Business — AirAsia's Operations — Fleet — Future Plans" and "Use of Proceeds".

Contractual Obligations and Contingent Liabilities

Contractual Obligations and Commitments

As at September 30, 2004, AirAsia had the following commitments.

	As at September 30, 2004	Payable within one year	Payable after one year but within three years	Payable after three years but within five years	Payable after five years
			(RM thousands)		
Aircraft	19,980	19,980	—	—	—
Property, plant and equipment	9,780	9,780	—	—	—
Aircraft operating lease expenses	387,665	75,193	142,903	99,814	69,755
Total	417,425	104,953	142,903	99,814	69,755

In the event AirAsia leases additional aircraft, excluding the 16 aircraft the Group expects to lease during the year ending June 30, 2005, any costs associated with such leases would be paid for using proceeds from the Initial Public Offering currently allocated to working capital. See "Use of Proceeds".

Contingent Liabilities

As at September 30, 2004, AirAsia had the following liabilities which has not been provided for in AirAsia's audited consolidated financial statements. See "Description of Material Indebtedness and Credit Facilities — Other Material Credit Facilities".

	As at September 30, 2004
	(RM millions)
Liabilities for withholding tax	2.3
Total	2.3

See Note 27 of "Financial Statements and Independent Auditor's Reports — Notes to the Financial Statements".

Market Risk

AirAsia is exposed to market risk, including fuel price risk, foreign currency exchange rate risk and interest rate risk. See the notes to AirAsia's consolidated financial statements for a description of AirAsia's accounting policies and additional information.

Fuel Price Risk

Fuel costs, which represent a significant portion of AirAsia's expenses, have historically been subject to wide fluctuations as a result of actual or anticipated movements in supply and demand. AirAsia implements various fuel management strategies to manage the risk of rising fuel prices. These contracts fix the price of all of AirAsia's expected fuel requirements as long as the market price of jet fuel stays within a pre-determined range. In the event that the market price of jet fuel exceeds the upper limits of this range, AirAsia either pays market prices for jet fuel less a discount, or is exposed to full market prices.

For the year ended June 30, 2003, AirAsia was effectively 100% hedged because, with respect to all of its fuel purchases, the market price of jet fuel remained within the range prescribed under AirAsia's jet fuel derivative contract. However, during the six months ended June 30, 2004, the market price of jet fuel increased above the prescribed range so that AirAsia's fuel price hedge was no longer fully effective. For the year ended June 30, 2004, approximately 17% of AirAsia's fuel requirements were purchased at market prices.

AirAsia has entered into jet fuel derivative contracts for all of the Group's expected fuel requirements for the year ending June 30, 2005. In the event that fuel prices exceed the prescribed upper limits, approximately 30% of the Group's expected fuel requirements for the year ending June 30, 2005 will be exposed to full market prices. For the three months ended September 30, 2004, AirAsia's hedge would have fixed AirAsia's price for jet fuel so long as the market price of jet fuel stayed within a pre-determined price range. However, because the market price for jet fuel exceeded the upper limits of the pre-determined range, AirAsia effectively paid market prices for jet fuel, less a discount, for most of its jet fuel requirements. If the market price falls below the bottom of the pre-determined price range, AirAsia is required to pay a pre-determined minimum price. The contracts also contain volume, duration and other limitations.

Fuel prices have risen sharply since early December 2003 and AirAsia believes that these costs may increase further. AirAsia forecasts that its fuel costs will increase to approximately 43% of its total cost of sales and operating expenses for the year ending June 30, 2005, compared to 30.6% of its total cost of sales and operating expenses for the year ended June 30, 2004. AirAsia has not yet entered into any jet fuel derivative contracts for the Group's expected fuel requirements for any period after June 30, 2005. Any increase in cost and/or decline in availability of adequate supplies of fuel could cause AirAsia to increase the fares it charges for air travel services, implement a fuel surcharge and/or have a material adverse effect on AirAsia. See "Risk Factors — Risks Relating to the Group — The Group could be materially and adversely affected by the unavailability of sufficient quantities or cost of fuel", "— Significant Factors Affecting AirAsia's Results of Operations — Low Operating Expenses" and "Business — AirAsia's Operations — Fuel".

Foreign Currency Exchange Rate Risk

Approximately 90% of AirAsia's revenues and 10% of its expenses were denominated in Malaysian Ringgit for the year ended June 30, 2004. AirAsia also receives revenues in Baht, Singapore dollars and Indonesian Rupiah but it does not enter into any hedging contracts to hedge fluctuations in exchange rates. Revenues, including credit card payments made through online bookings, that are denominated in Indonesian Rupiah and Macanese Patacas are converted immediately to U.S. dollars. The majority of AirAsia's costs, including fuel, aircraft lease expenses, maintenance expenses and insurance costs are denominated in U.S. dollars. However, because the Malaysian Ringgit is currently pegged to the U.S. dollar, AirAsia is not exposed to fluctuations between the two currencies. AirAsia may hedge its foreign currency exposure in the future, as it expands its services to additional international destinations.

In addition, Thai AirAsia is subject to fluctuations in the exchange rates between U.S. dollars and Baht as the majority of its revenues are denominated in Baht while most of its expenses are denominated in U.S. dollars. Where appropriate, Thai AirAsia intends to enter into hedging arrangements to minimize its risk to exposure to fluctuations between the Baht and U.S. dollar.

Interest Rate Risk

Changes in interest rates affect AirAsia's interest expenses as all of its indebtedness is subject to floating interest rates. As at June 30, 2004, borrowings owed to banks amounted to an aggregate of RM95.5 million at effective interest rates ranging from 4.0% to 5.0%. Although AirAsia intends to use some of the proceeds from the Initial Public Offering to repay outstanding indebtedness, AirAsia is likely to incur additional floating rate indebtedness if it incurs debt financing in connection with the acquisition of additional aircraft.

Credit Risk

AirAsia's exposure to credit risks, or the risk of counterparties defaulting arises mainly from cash deposits and receivables. The maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet. Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised by monitoring receivables regularly.

AirAsia generally has no concentration of credit risk except for a debt owed by two customers which constituted approximately 83.4% of the AirAsia's outstanding trade receivables as at June 30, 2004.

However, the Directors are of the opinion that AirAsia's exposure to credit risk have been fully provided for.

Seasonality

AirAsia generally records higher revenue from November to January as festivals and school holidays in Malaysia increase AirAsia's passenger load factors. Accordingly, its revenue, operating profit and cash flow is usually lower between February and May and between July and September due to decreased travel during those months. Although Thai AirAsia did not commence operations until February 2004, the Company believes the peak periods of demand in Thailand to be between November and January as well as in April due to increased leisure travel during those periods.

Inflation

AirAsia does not believe that inflation has had a material impact on its business, financial condition or results of operations. Inflation in Malaysia was 1.3% for the year ended December 31, 2003. If Malaysia were to experience significant inflation, AirAsia may not be able to fully offset the resulting higher costs through fare increases. AirAsia's failure or inability to do so could adversely affect its business, financial condition and results of operations.

Critical Accounting Policies and Estimates

In accounting for certain transactions and operations of its business, AirAsia's management establishes policies for the recognition of the revenue and expense, some of which require management to develop estimates and expectations regarding future events, including estimates for the useful lives of assets, the ability to generate revenue and the likelihood of receiving payments from third parties. The assumptions underlying these recognition standards are, of necessity, subjective in nature. The ability to effectively and accurately establish, monitor and adjust these standards may have a material impact on the accuracy and quality of the financial information reported by AirAsia. It is important to understand the underlying assumptions and policies adopted by AirAsia when analyzing AirAsia's financial conditions and results of the operations.

AirAsia's significant accounting policies are described in "Financial Statements and Independent Auditor's Report — Summary of Significant Accounting Policies". The preparation of financial statements requires AirAsia's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. AirAsia's estimates and assumptions are based on historical experiences, including changes in the business environment. However, actual results may differ from estimates under different conditions, sometimes materially. Critical accounting policies and estimates are those that are both most important to the portrayal of AirAsia's financial condition and results and require management's most subjective judgments. AirAsia's most critical accounting policies and estimates are described below.

Revenue Recognition

Scheduled passenger flight and chartered flight income is recognized 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.

As described in Note R of "Financial Statements and Independent Auditor's Reports — Summary of Significant Accounting Policies", seats sold for passenger air travel are initially deferred as "Sales in advance". Sales in advance represents seats sold for future travel dates. Passenger revenue is recognized, and sales in advance is reduced, when the service is provided (i.e. when the flight takes place). AirAsia's terms and conditions of sale provide that seats sold but unused are void and are not refundable. The Company's sales in advance balance as at June 30, 2004 was RM33.1 million.

Amounts collected on behalf of governments or other regulatory bodies and direct per-passenger charges, are excluded from revenue as these amounts are not considered economic benefits which flow to AirAsia. Cargo, freight and other related revenue are recognized upon the completion of services rendered and where applicable, net of discounts.

Operating Leases

Leases under which AirAsia assumes substantially the significant risk and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

All the aircraft lease agreements entered into by AirAsia are operating leases in compliance with MAAS. These agreements have the following key features which warrant the classification above:

- the lease does not transfer ownership of the aircraft to AirAsia by the end of the lease term;
- there is no option for AirAsia to purchase the aircraft at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised; and
- the lease term is not a major portion of the economic life of the related aircraft.

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.

Aircraft Maintenance Costs

Routine maintenance costs are expensed as incurred. This practice applies to both owned and leased aircraft and is distinct from major maintenance.

Provision is made for the estimated future cost of major overhaul and maintenance expenditure of leased airframes, engines and auxiliary power units by making charges to the income statement, calculated by reference to the number of hours or cycles operated during the period, as a result of aircraft rectification obligations placed on AirAsia by operating lease agreements. The cost of major overhaul and maintenance expenditure are written off against the provision when incurred.

AirAsia has certain aircraft for which the lease commenced during a major overhaul cycle and for which AirAsia is obligated, under the terms of the lease, to pay the full amount of the overhaul cost, although AirAsia only leases the aircraft for a portion of the relevant maintenance cycle. This element of the maintenance cost payable is recognized as a liability upon inception of the lease and an equivalent amount is accounted for as an asset (deferred expenditure). The deferred expenditure is amortized over the operating lease period. The liability is offset against the maintenance costs when such costs are actually incurred.

Major overhaul and maintenance expenditure on owned aircraft is capitalized as part of the carrying value of the aircraft as incurred and amortized over the period to the next scheduled heavy maintenance.

Property, Plant and Equipment

As of June 30, 2004, AirAsia had RM158.5 million of property, plant and equipment, including RM144.2 million of flight equipment and related assets. In accounting for property, plant and equipment, AirAsia must make estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate.

The following table shows a breakdown of AirAsia's key property, plant and equipment groups along with information about estimated useful lives and residual values of these groups:

	Estimated Useful Life
Aircraft and engines	7 years
Aircraft spares	10 years
Ground property and equipment	5 years

In estimating the lives and expected residual values of its aircraft, AirAsia has primarily relied upon actual and industry experience with the same or similar aircraft types and recommendations from Boeing, the manufacturer of AirAsia's aircraft. Aircraft estimated useful lives are based on historical and anticipated future utilization of the aircraft. AirAsia evaluates its estimated useful lives, residual values and assumptions each reporting period and when circumstances warranted adjusts these estimates and assumptions. Generally, these adjustments are accounted for on a prospective basis through depreciation, expenses as required by MAAS.

When appropriate, AirAsia evaluates its assets for impairment. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of the asset(s), a significant change in the asset's physical condition, and operating or cash flow losses associated with the use of the asset. While the airline industry as a whole has experienced many of these indicators, AirAsia has continued to operate all of its aircraft and continues to experience positive cash flow. Consequently, AirAsia has not identified any impairment related to owned aircraft. AirAsia will continue to monitor its assets and the airline operating environment.

Derivatives

AirAsia uses certain derivative financial instruments to hedge its exposure to changes in jet fuel prices and accounts for them under the Malaysian Accounting Standards Board, Standard 24 ("MASB 24"). The Company is required to comply with restrictions on foreign ownership of its Shares, which may affect the voting rights, liquidity and market price of the Shares "Financial Instruments: Disclosure and Presentation". See "— Market Risk — Fuel Price Risk" for more information on these risk management activities. MASB 24 requires that where a financial instrument has been designated as a hedge for risk associated with anticipated future transactions, certain disclosures are required to be made. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering the hedge, are only recognized or included in the measurement of income when it has occurred as designated i.e., on delivery of the related jet fuel. The fair value of AirAsia's financial derivative instruments not recognized in AirAsia's consolidated balance sheet at June 30, 2004, was RM28.0 million. Should the fair valuation be included in the financial statements, this would result in an increase in the Company's shareholders' funds. The Company does not purchase or hold any derivative instruments for trading purposes.

Where the anticipated transaction is no longer expected to occur as designated, the gains or losses relating to the hedged transaction are immediately recognized in the financial statements.

Income and Deferred Taxation

AirAsia has not historically paid significant amounts of corporate tax as only the interest and rental income has generated taxable profits, which have been presented as current tax.

Temporary taxable differences, the future reversal of which will give rise to taxable income, are provided for in full and are included as deferred tax liabilities in the financial statements.

AirAsia has significant amounts of brought forward capital allowances, other temporary deductible differences and unutilized tax losses. AirAsia assesses at each period end, whether there is sufficient convincing evidence that these potential credits are capable of reversal and utilization in future periods. Where it is probable that future taxable critical profit will be available against which the tax benefits can be utilized, AirAsia will recognize these benefits as deferred tax assets in the financial statements. As at 30 June 2004, AirAsia has a net deferred tax liability of RM1.1 million.

Audit Matters

The audited financial statements of the Company was not subject to any audit qualification for the years ended March 31, 1999, 2000, 2001, for the 15 month period ended June 30, 2002 and the years ended June 30, 2003 and 2004. The audited financial statements of Crunchtime were not subject to any audit qualification for the financial period from October 16, 2002 (Crunchtime's date of incorporation) to June 30, 2003 and for the year ended June 30, 2004.

FUTURE FINANCIAL INFORMATION

The prospective financial information included in this Offering Circular has been included in the Malaysian Prospectus pursuant to Malaysian law for the benefit of investors in the Malaysian Retail Offering and the Malaysian Institutional Offering, and has been prepared by, and is the responsibility of, the Directors, in accordance with SC Guidelines and MAAS. There is no intention to update this information or publish prospective financial information in the future.

Investors' attention is drawn to the developments and significant uncertainties affecting the Group's business that are discussed elsewhere in this Offering Circular, in particular "Risk Factors". The forecast should be read together with the assumptions and sensitivity analysis set forth herein. For illustrative purposes only, an assumed Institutional Price of RM1.51 per share, based on an assumed Retail Price of RM1.40 per share for the Malaysian Retail Offering, is used below. The Institutional Offering is assumed to comprise 80% of the Initial Public Offering. Since the actual Institutional Price is less than RM1.51, the actual proceeds from the Initial Public Offering will be less than the amounts assumed in the forecast.

The prospective financial information was not prepared as a forecast in compliance with the published guidelines of the American Institute of Certified Public Accountants regarding forecasts.

PricewaterhouseCoopers has neither examined nor compiled the accompanying prospective financial information for purposes of its inclusion in an offering document provided to non-Malaysian investors and, accordingly, PricewaterhouseCoopers does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers report included in this Offering Circular relates to AirAsia's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

Consolidated Profit Forecast for the Year Ending June 30, 2005 for the Company

The Directors of the Company forecast that the consolidated profit after taxation and minority interest of the Company, without and with the Initial Public Offering respectively, upon completion of the Company's proposed Initial Public Offering for the financial year ending June 30, 2005, will be as follows:

	Year ending June 30, 2005	
	Without Initial Public Offering	With Initial Public Offering
	RM (thousands)	RM (thousands)
Revenue	746,596	746,596
Consolidated profit before taxation	157,030	172,804(1)
Less: Taxation	(8,349)	(11,578) (2)
Consolidated profit after taxation	148,681	161,226
Less: Minority interest	(1,344)	(1,344)
Consolidated profit after taxation and minority interest	147,337	159,882
Earnings per ordinary share(3)		
— Basic (sen)	8.41	7.47
— Diluted (sen)	8.41	7.41
Prospective price to earnings multiples based on an assumed Retail Price of RM1.40 and		
— Basic earnings per ordinary share (times)	16.65	18.74
— Diluted earnings per ordinary share (times)	16.65	18.89

Notes:

(1) Consolidated profit before taxation, after the Initial Public Offering, includes interest income earned at 3% per annum on proceeds arising from the Initial Public Offering that are assumed to be placed in deposits with licensed banks, and the interest savings on repayment of borrowings using the proceeds from the issue of the Issue Shares

(2) Taxation, after the Initial Public Offering, includes the tax on interest income earned from the deposits placed with licensed banks

(3) Basic and diluted earnings per share are calculated as set out in "— Consolidated Profit Forecast for the Year Ending June 30, 2005 for AirAsia — Earnings Per Share"

The consolidated profit forecast of the Company for the year ending June 30, 2005 has been prepared based on the Directors' assessment of the present economic and operating conditions and the Directors' best estimate assumptions regarding future events and actions which, at the date the forecast was prepared, the Directors expect to take place. These future events may or may not take place. The principal assumptions and the risk factors which may impact their achievement are set out below. See "Consolidated Profit Forecast for the Year Ending June 30, 2005 for AirAsia — Bases of Preparation of Consolidated Profit Forecast."

A forecast, by its very nature, is subject to business, economic and competitive uncertainties and unexpected events, many of which are beyond the control of the Group and the Directors, and upon assumptions with respect to future business decisions, which are subject to change. Also, events and circumstances often do not occur as anticipated, and therefore actual results are likely to differ from the forecast, and the differences may be material.

Since December 2001, the date that the ownership of the Company changed, the Group has undergone significant developments in its operations, management and business model. Following the implementation of these changes, the revenues and profitability of AirAsia have both improved significantly. The consolidated profit forecast for the year ending June 30, 2005 assumes the continued success of the Group's business strategies. The success of these strategies is subject to uncertainties and events beyond the Group's control, and no assurance can be given that the strategies will be effective or that the anticipated benefits from the strategies will be realized in the period for which the forecast has been prepared, or otherwise.

The aviation industry is subject to many external factors which can materially impact its operating and financial performance. Accordingly, the consolidated profit forecast includes the Directors' best estimates and assumptions as to passenger load factors, average number of aircraft, average fares, operating expenses (including fuel costs), foreign currency exchange rates and finance costs for the year ending June 30, 2005.

Relatively small changes in average number of aircraft, passenger load factors, average fares and effective jet fuel costs, can have a significant impact on operating results. (see "— Sensitivity Analysis").

Accordingly, the Directors cannot, and do not, guarantee the achievement of the consolidated profit forecast.

Bases of Preparation of Consolidated Profit Forecast

The principal bases and assumptions upon which the consolidated profit forecast has been prepared are as follows:

(1) Consolidated profit forecast for the financial year ending June 30, 2005:

AirAsia Berhad's consolidated profit forecast for the financial year ending June 30, 2005 includes its 50.001% owned subsidiary, Crunchtime and Crunchtime's 49% equity interest in Thai Crunch Time, its wholly owned subsidiaries, AirAsia Go Holiday and AirAsia Mauritius, AirAsia's acquisition of AAIL and its subsidiary, AirAsia HK and its associates, Thai AirAsia and AAPL, as well as Thai Crunch Time and Thai AirAsia HK being subsidiaries of Thai AirAsia (herein referred to as the "AAIL Group"):

(a) The Company's acquisition of a 99.8% equity interest in AAIL and its subsidiary (AirAsia HK) and its associated companies (Thai AirAsia, Thai CrunchTime, AAPL and Thai AirAsia HK), effective on July 1, 2004. Hence, the Company will consolidate the AAIL Group's consolidated results in its financial statements with effect from July 1, 2004 to June 30, 2005.

(b) Following the completion of the Company's acquisition of AAIL on July 1, 2004, AAIL is regarded as the Company's 99.8% owned subsidiary while AirAsia HK is regarded as AAIL's 100% owned subsidiary, Thai AirAsia and AAPL are regarded as AAIL's 49% owned associates whilst Thai Crunch Time and Thai AirAsia HK are regarded as Thai AirAsia's 51% and 100% owned subsidiary respectively.

(c) In addition to Thai AirAsia's shareholding in Thai Crunch Time, the Company's subsidiary, Crunchtime holds a 49% equity interest in Thai Crunch Time. As a result, the Company holds a 49.44% effective equity interest in Thai Crunch Time and therefore, Thai Crunch Time is equity accounted for as an associate of the Company.

(d) The forecast results of Crunchtime, AAIL and Thai AirAsia are included based on their profit forecasts for the financial year ending June 30, 2005.

(e) The forecast results of Thai Crunch Time, AAPL, AirAsia Go Holiday, AirAsia HK, Thai AirAsia HK and AirAsia Mauritius are not included in the consolidated profit forecast for the financial year ending June 30, 2005 as they are not anticipated to be material.

(2) The Company undertook a share split of one (1) existing ordinary share of RM1.00 each in the Company into 10 new ordinary shares of RM0.10 each.

(a) The following transactions will be undertaken by the Group before the proposed listing on the Main Board of Bursa Securities, which is assumed to be on November 22, 2004:

(b) Initial Public Offering of 583,757,800 new ordinary shares of RM0.10 each in the Company at an assumed Retail Price of RM1.40 per share for the Malaysian Retail Offering and an assumed price of RM1.51 for the Institutional Offering. The gross proceeds from the issue of the Issue Shares are estimated to be approximately RM864.0 million. The allocation of ordinary shares between the Malaysian Retail Offering and the Institutional Offering is proposed as follows:

	Number of new ordinary shares at RM0.10 each	Estimated proceeds from the issue of the Issue Shares
	(thousands)	RM (thousands)
Malaysian Retail Offering	140,102	196,143
Institutional Offering	443,656	667,869
	583,758	864,012

The proposed utilization of estimated gross proceeds of approximately RM864.0 million from the issue of the Issue Shares is as follows:

	RM (thousands)
Repayment of bank borrowings	94,240
Capital expenditure	100,000
Estimated listing expenses(1)	35,500
Working capital(2)	634,272
Total gross proceeds	864,012

Notes:

(1) The estimated listing expenses will be deducted from the Company's share premium account. See "Use of Proceeds"

(2) AirAsia is currently considering the proposed acquisition of up to 80 aircraft as described in "Business — AirAsia's Operations — Fleet — Future Plans". The consolidated profit forecast has been prepared on the basis that these proposed acquisitions will not be undertaken in the forecast period to June 30, 2005, and therefore the effects of the proposed transactions have not been included in the assumptions

(3) The number of the share options to be granted under the ESOS shall not exceed 10% of the enlarged issued and paid-up share capital of the Company at any one time. Based on the enlarged issued and paid-up share capital of the Company upon completion of the Initial Public Offering of 2,335,031,080, the assumed maximum number of share options is 233,503,108. The exercise price for the initial 4% and the assumed exercise price for the subsequent 6% of the enlarged issued and paid-up share capital of the Company are RM1.08 and RM1.40 respectively.

Prior to the completion of the Initial Public Offering assumed to take place on November 22, 2004, the Company has offered 93,240,000 shares (minimum number of share options scenario) or assumed an offer of 233,503,108 shares (maximum number of share options scenario), representing approximately 4% or 10% of the enlarged issued and paid-up share capital of the Company. The exercise price and assumed exercise price are RM1.08 and RM1.40 per share, for the initial 4% and subsequent 6%, respectively, of the enlarged issued and paid-up share capital of the Company. The share options in both the minimum and maximum number of share options scenarios, shall only be exercisable one year after the date of offer. Therefore, the share options will not be exercised before September 1, 2005, and no proceeds arising therefrom are assumed in the forecast period.

Principal Assumptions

General Assumptions

There will be no material changes to the Group structure or any material acquisitions of, or investments in, additional businesses or activities other than those planned and incorporated in the forecast.

There will be no significant changes in existing strategic and operating policies, as well as the composition of existing key management personnel of the Group that will adversely affect the activities or performance of the Group.

There will be no significant change in the accounting policies adopted by the Company in its audited consolidated financial statements for the year ended June 30, 2004, as reported on by PricewaterhouseCoopers, that will adversely affect the activities or performance of the Group.

There will be no material changes in the present legislation or government regulations in Malaysia, or in other jurisdictions in which the Group is forecast to provide air transportation services (i.e., Singapore, Thailand, Indonesia, Philippines and China — herein referred to as "other jurisdictions or other markets"), especially legislation or regulations that affect the aviation industry, which will adversely affect the Group's activities or performance.

There will be no significant change in prevailing political and economic conditions in Malaysia, or in other jurisdictions or other markets, especially those conditions that affect the aviation industry, which will adversely affect the Group's activities or performance.

There will be no significant change in the assumed tax rates, bases of taxation and tax incentives, as well as duties and levies, and other corporate tax applicable to the Group, except for those tax assumptions set out in the detailed taxation assumptions.

There will be no major industrial disputes or any abnormal circumstances, including exceptional bad debts, in Malaysia, or in other jurisdictions or other markets where the Group is forecast to provide air transportation services, especially those conditions that affect the aviation industry, which will adversely affect the Group's activities or performance.

All necessary approvals from the relevant authorities and regulators, both domestic and in other jurisdictions or markets where the Group is forecast to provide air transportation services, will be obtained without limitations, as assumed in the forecast.

There will be no major disruption in the operations of the aviation industry and there will be no other events and abnormal factors, including war, terrorism attacks, SARS or Avian Flu, which will adversely affect the operations of the Group.

No significant aviation accident or incidents in Malaysia, or in other jurisdictions or other markets where the Group is forecast to provide air transportation services, involving the Group's aircraft, or those of other airlines which would impact on the Group's operations.

The Directors assume there will be no material impact to the Group's operations or financial results during the forecast year from the launch of new low cost carriers in Southeast Asia.

There will be no material adverse changes in the competitive operating environment in Malaysia and in other markets where the Group is forecast to provide air transportation services.

Inflation Assumptions

Other than inflationary increases in both domestic and in other jurisdictions or markets where the Group is forecast to provide air transportation services, there will be no significant change in the cost of maintenance and overhaul, administrative and overhead expenses, labor and other materials used in the operations and businesses of the Group.

Foreign Currency Exchange Rates Assumptions

The exchange rates of Ringgit Malaysia against the AirAsia's principal operating currencies as assumed in the forecast, are based on the published local bank rates as at August 31, 2004, as follows:

1 United States Dollar:	RM3.8000
1 Singapore Dollar:	RM2.2167
1 Baht:	RM0.0912
1 Indonesian Rupiah:	RM0.0004
1 Pound Sterling:	RM6.8010
1 Hong Kong Dollar:	RM0.4872

Key Operating Statistics

The table below sets out the key operating statistics underlying the key assumptions of the Malaysian operations summarized above, together with historical comparatives for illustrative purposes:

Malaysian Operations	Historical 15 month period ended June 30, 2002	Historical 12 months ended June 30, 2003	Historical 12 months ended June 30, 2004	Forecast 12 months ending June 30, 2005
Passengers carried	610,738	1,481,097	2,838,822	5,066,213
RPK (millions) (1)	672	1,539	2,771	5,582
ASK (millions) (2)	1,018	2,086	3,592	7,394
Average fares (RM)	183	147	131	142
Passenger load factor (%)	66	74	77	75
Revenue per RPK (sen)	18.45	15.09	14.21	13.21
Cost per ASK (sen)	12.78	10.85	9.35	8.32
Sectors flown	6,521	14,461	25,106	45,338
Number of aircraft at period/ year end	3	7	13	25
Average number of aircraft	2.5	5.5	9.5	19.3
Aircraft utilization (block hours per day)	11.2	12.5	12.8	13.0

Notes:

(1) RPK — Revenue Passenger Kilometers

(2) ASK — Available Seat Kilometers

Fleet Plan Assumptions

The Directors assume that the Group, in respect of its aircraft fleet in Malaysia, will continue to utilize and expand its fleet from 13 aircraft as at June 30, 2004 to 25 (including two spares) aircraft as at June 30, 2005. The spare aircraft will be utilized when the operational aircraft are undergoing scheduled maintenance programmes.

Revenue Assumptions

The passenger seat sales and chartered flight revenue forecast is based on estimates of the number of seats in service, the average passenger load factors and the average air fares on a per route basis (single trip) (e.g. Kuala Lumpur to Johor Bahru or Kuala Lumpur to Bangkok) basis.

The Directors assume that the Group will increase its fleet in Malaysia from 13 aircraft as at June 30, 2004, to 25 aircraft as at June 30, 2005. As of August 31, 2004, there were 16 aircraft utilized in the Group's existing operations in Malaysia.

The increase in capacity is forecast to generate increased passenger seat sales. In addition, increased revenue is expected to come from increased frequencies in existing destinations, coupled with the introduction of certain international services in other jurisdictions or other markets where the Group is forecast to provide air transportation services.

The Directors of the Company have forecast average fares for the Malaysian operations, on a route by route basis resulting in a total average fare across the network of approximately RM142 for the year ending June 30, 2005.

The Directors of the Company have forecast the average load factors of the Malaysian operations to be 75% in the forecast year ending June 30, 2005. There will be no significant change in passenger load factors and average fares, other than those assumed in the forecast.

Aircraft Fuel Cost Assumptions

Fuel costs account for approximately 42.8% of AirAsia's total cost of sales and operating expenses for the forecast year ending June 30, 2005. The average aircraft fuel, i.e. Singapore Jet Fuel, market price was approximately U.S.$51.65 per barrel in the period from July 1, 2004 to September 28, 2004. The Group seeks to hedge this fuel price risk by entering into jet fuel derivatives contracts.

For the forecast financial year ending June 30, 2005, the Company assumes the fuel cost of the Malaysian operations, after the effect of hedging, will be approximately U.S.$42.00 per barrel for the first half to December 31, 2004 and U.S.$36.96 per barrel for the second half to June 30, 2005. These are based on the assumptions that the market price of jet fuel will be on average U.S.$51.00 per barrel and U.S.$45.00 per barrel for the six months to December 31, 2004 and June 30, 2005 respectively.

Operating Leases Assumptions

The Directors assume that the Group's operating lease payments made in connection with the existing and forecast fleet of leased aircraft of the Malaysian and Thailand operations, will be made in accordance and consistent with the existing and forecast lease terms and conditions.

Capital Expenditure Assumptions

The capital expenditure programme will be implemented, incurred and put into operations as planned and it is expected to provide sufficient capacity to support the operations of the Group. There will not be any material change in the cost and pricing structure of aircraft and spares, aviation equipment and materials from the prevailing rates. There will be no significant disposals of property, plant and equipment, as set out in the forecast year.

Capital expenditure of the Malaysian operations is forecast to be RM100 million for the year ending June 30, 2005 and consist of the acquisition of three aircraft, as well as aviation equipment, aircraft spares, computer equipment, and furniture and fittings.

Other Operating Expense Assumptions

AirAsia's operating expenses are largely dependent upon the forecast revenue and operating assumptions. Specific operating expense assumptions for the financial year ending June 30, 2005 include:

- Employees — the number of employees of the Malaysian operations is assumed to increase from 1,382 at June 30, 2004, to 2,476 at June 30, 2005.
- Depreciation — based on historical rates and applied in accordance with the accounting policies of AirAsia. The Directors of the Company have assessed the useful life of the aircraft to be acquired during the forecast year ending June 30, 2005, to be seven years and have applied that basis in the forecast.
- Aircraft fuel charges — based on estimated fuel costs as set out above.
- Maintenance costs are forecast to be incurred as scheduled in accordance with the existing terms and conditions of the maintenance contracts.
- Where appropriate, expenses have been escalated over the forecast period by inflation, unless otherwise specified in relevant contracts.

The basis for route charges (i.e. aeronautical charges), landing fee charges, parking charges, aerobridge charges, counter charges and navigation fees is assumed to remain the same as in historical periods, or has been adjusted for changed contractual circumstances.

The Group will have adequate manpower, operating and information systems and other resources to support the forecast growth in its business.

The Group's advertising and marketing plans in Malaysia and Thailand will be carried out, as assumed in the forecast.

Existing trading relationships with major suppliers and service providers will be maintained. There will be no limitation or delay in the supply of materials or the provision of services that will significantly affect the activities or performance of the Group.

All purchases procured, and contracts and agreements entered into, will be made based on terms and conditions, as assumed in the forecast.

The Directors of the Company have assumed that allowances for doubtful debts are not required to be made during the forecast year ending June 30, 2005.

Surplus Funds Assumptions

Surplus funds will be placed in term deposits and will earn interest income at an average interest rate of 3% per annum, both domestically and in other jurisdictions or other markets where the Group is forecast to provide air transportation services.

Borrowings Assumptions

Existing and future financing facilities will remain available at prevailing interest rates. Borrowing cost is forecast at 5% per annum, depending on the actual terms of the relevant agreements or facilities.

Taxation Assumptions

(a) Income tax payable

On April 19, 2004, the Company submitted an application to obtain tax exemptions under Section 127(3) of the Income Tax Act 1967. The Directors of the Company are of the opinion that the Company's application will receive due consideration from the Malaysian Government and that a favorable response will be granted for a period commencing on July 1, 2004, which includes the period of the consolidated profit forecast from July 1, 2004 to June 30, 2005.

In the event that the application is not successful, the potential shortfall of the provision for taxation for the year ending June 30, 2005 is approximately RM10.0 million.

(b) Withholding tax payable

The Company has made an application to the Malaysian Government for the waiver of withholding tax payable on certain lease payments for the aircraft made in prior to June 30, 2001. The Directors of the Company are of the opinion that the Company's application will receive due consideration from the Malaysian Government and that a favorable response will be granted.

In the event that the application is not successful, the potential shortfall of the provision for withholding tax payable as at June 30, 2004 is approximately RM2.3 million, which has not been provided for in the forecast year.

The forecast do not include any expense or cash flow relating to either of these potential tax payments. Similarly, the forecast does not include any reversal of the amounts provided as at June 30, 2004 in respect of withholding tax.

Dividend Policy Assumptions

There will be no dividend declared or paid in respect of ordinary shares in the period covered by the forecast.

Assumptions on Thai AirAsia (herein referred to as the "Thailand operations")

The Company 's investment in Thai AirAsia (through its subsidiary, AAIL) is recorded using the equity basis of accounting. Therefore, the consolidated profit forecast of the Company for the year ending June 30, 2005, includes the share of results of Thai AirAsia amounting to approximately RM14.0 million (with Initial Public Offering) from July 1, 2004 to June 30, 2005.

The forecasts in respect of Thai AirAsia has been prepared by the management of the Company, using the same general assumptions as set out above, and include the following specific assumptions:

(a) Key operating statistics:

Thailand Operations	Forecast 12 months ending June 30, 2005
Passengers carried	2,271,359
RPK (millions) (1)	2,175
ASK (millions) (2)	2,870
Average fares (RM)	142.6
Passenger load factor (%)	77
Revenue per RPK (sen)	16.59
Cost per ASK (sen)	11.42
Sectors flown	19,806
Number of aircraft at year end	11
Average number of aircraft	7.01
Aircraft utilization (block hours per day)	13.0

Notes:

(1) RPK — Revenue Passenger Kilometers

(2) ASK — Available Seat Kilometers

(b) The aircraft fleet in Thailand is assumed to comprise 11 aircraft as at June 30, 2005.

(c) For the year ending June 30, 2005, the Company assumes the fuel cost of the Thailand operations, after the effect of hedging, will be approximately U.S.$42.00 per barrel for the first half to December 31, 2004 and U.S.$36.96 per barrel for the second half to June 30, 2005. These are based on the assumption that the market price of jet fuel will be an average U.S.$51.00 per barrel and U.S.$45.00 per barrel for the six months to December 31, 2004 and June 30, 2005 respectively.

(d) The Thailand operations are assumed to have 877 employees as at June 30, 2005.

Earnings per Share

Basic Earnings per Share

The basic earnings per share of the Group is calculated by dividing the consolidated profit after taxation and minority interest by the weighted average number of ordinary shares in issue during the forecast year.

	Year ending June 30, 2005	
	Without Initial Public Offering	With Initial Public Offering
Consolidated profit after taxation and minority interest (RM thousands)	147,337	159,882
Weighted average number of ordinary shares in issue (thousands)	1,751,273	2,140,445
Basic earnings per ordinary shares (sen)	8.41	7.47

Diluted earnings per Share

The diluted earnings per share of the Group is calculated by dividing the consolidated profit after taxation and minority interest by the weighted average number of ordinary shares in issue, adjusted to assume the conversion of all dilutive potential ordinary shares, i.e. share options.

Prior to the completion of the Initial Public Offering, the Company has offered 93,240,000 share options, representing approximately 4% of the enlarged issued and paid-up share capital of the Company, pursuant to the Share Option Scheme at an exercise price of RM1.08 per share. The share options shall only be exercisable one year from the date of offer, which is September 1, 2004 for purposes of the profit forecast. Diluted earnings per share has been presented as these share options are dilutive potential ordinary shares.

In assessing the dilution in earnings per share arising from the issue of share options, a calculation performed to determine the number of shares that could be acquired at market price. This calculation serves to determine the "bonus" element to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to the consolidated profit after taxation and minority interest in the calculation of the diluted earnings per share in connection with the issue of share options during the forecast year.

	Year ending June 30, 2005	
	Without Initial Public Offering	**With Initial Public Offering**
Consolidated profit after taxation and minority interest (RM thousands)	147,337	159,882
Weighted average number of ordinary shares in issue (thousands)	1,751,273	2,140,445
— Shares options	0	17,790(1)
	1,751,273	2,158,236
Diluted earnings per shares (sen)	8.41	7.41

Note:

The 93,240,000 share options are assumed to be awarded on September 1, 2004 and are therefore, dilutive potential ordinary shares until June 30, 2005

On the assumption that the maximum number of the share options to be offered pursuant to the ESOS is 233,503,108, representing 10% of the enlarged issued and paid-up share capital of the Company, the diluted earnings per ordinary share would be 7.41 sen, based on the assumed exercise prices of RM1.08 and RM1.40, respectively, for the initial 4% and subsequent 6% of the excersised and enlarged issued and paid-up share capital of the Company.

Sensitivity Analysis

The consolidated profit forecast is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and its Directors, and upon assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the sensitivity of the consolidated profit forecast after taxation and minority interest to variations in a number of key variables, to the overall consolidated profit forecast. The sensitivity analysis is specific to the average number of aircraft, passenger load factors, average fares and effective jet fuel costs, which represents the average jet fuel costs after the impact of hedging arrangements, assumed in the profit forecast for the financial year ending June 30, 2005. The changes in the key variables set out in the sensitivity analysis, are not intended to be indicative of the complete range of variations that may be experienced.

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables over the financial year ending June 30, 2005, to illustrate the likely impact on the consolidated profit forecast after taxation and minority interest. In practice, changes in variables may offset each or may be additive, and it is likely that the Group's management would respond to any adverse change in one variable by taking action to minimize the net effect on the Group's results.

	Forecast for the financial year ending June 30, 2005	
	Impact on consolidated profit forecast	
Assumption	Change in assumption	After taxation and minority interest
		RM (thousands)
Average number of aircraft for Malaysian operations	+/− 1	+/− 10,552
Passenger load factors	+/− 1%	+/− 7,403
Average fares	+/− RM1.00	+/− 4,615
Effective jet fuel costs (per barrel) (1)	+/− U.S.$1.00 (or RM3.80)	−/+ 5,787

Note:

Average jet fuel costs after the impact of hedging arrangements. See "Management's Discussion And Analysis Of Financial Condition And Results Of Operations — Market Risk — Fuel Price Risk"

Dividend Forecast

The Company has not declared or paid any dividends since its inception. The Board does not anticipate that it will declare any dividends for the financial year ending June 30, 2005.

The Company's ability to pay dividends or make other distributions to its shareholders are subject to restrictions contained in its loan agreements which limit dividends without the prior written consent of the lenders, as well as to its having sufficient funds which are not needed to fund its operations, other obligations or business plans. Please see "Description of Material Indebtedness and Credit Facilities".

The actual dividend that the Directors may recommend or declare in respect of any particular financial year or period will be subject to the foregoing factors and those outlined below as well as any other factors deemed relevant by the Board of Directors. In considering the level of dividend payments, if any, upon recommendation by the Board of Directors, the Company intends to take into account various factors including:

- the level of its cash, gearing, return on equity and retained earnings
- its expected financial performance
- its projected levels of capital expenditure and other investment plans

In addition, under Malaysian law, the level of franking credits or exempt income accounts available to distribute dividends in a tax efficient manner may also limit the amount of dividends. Considering the current financial position of the Company, the Company does not intend to pay any dividends during the year ending June 30, 2005.

Investors should note that all the foregoing statements are merely statements of the Company's present intention and shall not constitute legally binding statements in respect of its future dividends which are subject to modification (including reduction or non-declaration thereof) in the Directors' sole and absolute discretion. The Directors intend to review the Company's dividend policy on an ongoing basis.

No inference should or can be made from any of the foregoing statements as to the Company's actual future profitability or its ability to pay dividends in the future. See "Dividends".

Directors' Analysis and Commentary on the Consolidated Profit Forecast

The Board of the Company confirms that the consolidated profit forecast of the Company and the underlying bases and assumptions stated therein have been reviewed by the Directors after due and careful enquiry, and that the Directors having taken into account the future prospects of the aviation industry overview in Asia including Malaysia, the future strategies of the Group and its expected level of gearing, liquidity and working capital requirements, are of the opinion that the consolidated profit forecast is achievable under the prevailing business and economic environment. Nevertheless, these bases and assumptions cover future periods for which there are inherent risks, and therefore, should be treated with caution. This bases and assumptions are subject to significant uncertainties and contingencies, which are often outside the control of AirAsia.

Therefore, certain assumptions used in the preparations of the consolidated profit forecast may differ significantly from the actual situation after the date of this profit forecast.

Declarations on Financial Performance

Save as disclosed in this Offering Circular, the financial conditions and operations of AirAsia are not affected by any of the following as at August 31, 2004 (being the latest practicable date at which such amounts could be determined prior to the printing of this Offering Circular):

(i) known trends, demands, commitments, events or uncertainties that have had or that AirAsia reasonably expects to have a material favorable or unfavorable impact on the financial performance, position and operations of the Group;

(ii) material commitment for capital expenditure;

(iii) unusual, infrequent events or transactions or any significant economic change that materially affected the financial performance, position and operations of the Group;

(iv) apart from the increase in revenue elaborated in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Revenue", there has not been any substantial increase in revenue for the Group; and

(v) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

INDUSTRY OVERVIEW

S-A-P was commissioned by AirAsia in July 2004 to prepare an overview of the Southeast Asian aviation industry and top-level forecasts of intra-regional activity growth. As a result, a study entitled 'Low Cost Carriers, Aviation, and Economic Development in Southeast Asia' was produced by S-A-P. The following Industry Overview includes extracts from the S-A-P Report, dated July 23, 2004, which was prepared for inclusion in this Offering Circular. The information has not been independently verified by the Company, the Selling Shareholders, the Sole Bookrunner and Sole Lead Manager for the International Institutional Offering, the Joint Managing Underwriters (as defined herein) for the Malaysian Retail Offering and the Joint Bookrunners for the Malaysian Institutional Offering or any other person. Much of this information is based on estimates and should therefore be regarded as indicative only and treated with the appropriate caution.

The forecast passenger growth rates contained in this overview are based on varying levels of quantitative and qualitative analyses, including econometric analysis (assessing the historical correlations between air travel and GDP levels); historical and estimated future population; GDP; historical and estimated future visitor arrival levels; the potential for liberalization of aviation regulatory regimes; current and potential future airfare levels; and forecasts prepared by other industry observers.

In preparing the forecasts, S-A-P relied on primary and secondary data sources. As with most aviation activity forecasts, significant levels of judgment are employed.

Overview

The Southeast Asian aviation industry has grown rapidly in recent years, driven in large part by economic growth in the region and the liberalization of the regional aviation industry. From 1985 to 2000, passenger activity within the region grew at an average annual rate of 7.5%, one of the highest rates in the world. Growth is expected to continue, and S-A-P forecasts intra-regional passenger volumes to grow at 8.6% on an annualized basis from 2003 to 2008.

Low-cost carrier activity in Southeast Asia is only beginning to grow, albeit very rapidly. According to S-A-P, various factors, including rising per capita incomes and the advent of broadly available low air fares, provide opportunities for rapid growth and market share gains for the region's low-cost carriers. Low-cost carrier growth will depend in large part, however, on the continued liberalization of the aviation industry in the region and available airport capacity.

Regional and country-specific influences on the Southeast Asian aviation industry along with five-year passenger forecasts are discussed in the following Industry Overview.

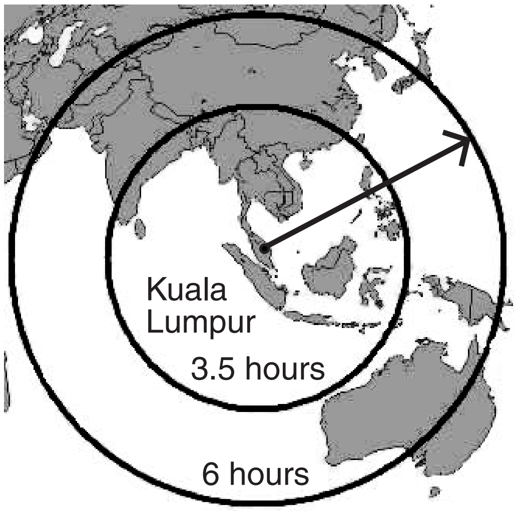
Factors Driving Aviation Activity Levels in Southeast Asia

Numerous factors are expected to spur continued aviation activity growth in the Southeast Asian region, including:

- large demographic area with good per capita income growth;
- liberalization of the aviation industry;
- geography;
- increasing numbers of business travelers; and
- increasing urbanization.

Large Demographic Area With Low Income Per Capita

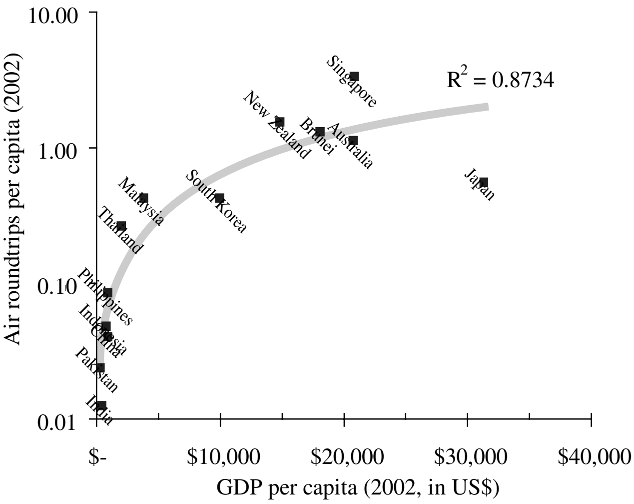
More than 50% of the world's population lives within a six hour flying radius from Kuala Lumpur and a five-hour flying radius from Bangkok, highlighting the potential size of the regional aviation market. However, as a result of low GDP per capita throughout most of the region, a high share of the population has been unable to afford air transportation.



Residents of countries with high per capita levels of gross domestic product ("GDP") tend to travel more, while the opposite is true for residents of countries with low per capita levels of GDP. The figure below highlights this relationship for 13 countries in the Asia-Pacific region.

RELATIONSHIP BETWEEN PER CAPITA GROSS DOMESTIC PRODUCT (GDP) AND AIR TRAVEL
Select countries in Asia-Pacific
2002

Country	Per capita: GDP (in current U.S.$)	Per capita: Total passenger roundtrips
Australia	$20,822	1.11
Brunei	$18,151	1.29
China	$ 989	0.04
India	$ 487	0.01
Indonesia	$ 817	0.05
Japan	$31,407	0.55
Malaysia	$ 3,905	0.42
New Zealand	$14,872	1.53
Pakistan	$ 408	0.02
Philippines	$ 975	0.08
Singapore	$20,886	3.30
South Korea	$10,006	0.42
Thailand	$ 2,060	0.26



Note:

Amounts include domestic and international air travel to/from reporting airports in the countries shown and may include some transfer passengers. Roundtrips represent double one-way passenger movements

Liberalization of the Aviation Industry

The rapid air passenger growth that low-cost carriers generate has encouraged some governments and airport operators to liberalize bilateral aviation agreements and to develop new airport capacity to accommodate the increased demand. Countries in South and Southeast Asia are beginning to broadly liberalize the international bilateral agreements that can, in their extreme, regulate items such as the precise number and type of carriers that can operate, the number of total seats that can be provided, and the levels of air fares that can be charged.

As an example of recent liberalizations, Thailand and China recently adopted an "open skies" agreement that allows nearly unrestricted operations between the two countries, while Singapore, Thailand, and Brunei are negotiating a multi-lateral "open skies" agreement for passenger flights. Travel restrictions are also being relaxed, with China, in particular, encouraging its citizens to travel by increasing the number of exit visas it issues for independent and group travel.

To accommodate expected strong growth, airport operators in Malaysia, Thailand, and Singapore are studying options to create dedicated low-cost carrier passenger terminal facilities. In addition, some airport operators in the region are providing aeronautical charge discounts for new routes and for efficient use of airport facilities, such as short aircraft turnaround times at passenger terminal buildings.

Geography

The separation of many parts of Southeast Asia by bodies of water and the lack of competitive sea or land transport substitutes provide an ideal market for air travel. In Europe and North America, highly developed automobile and rail networks provide competitive substitutes to air travel for short and medium intra-regional trips. The introduction of widely available low air fares in Southeast Asia greatly reduces the cost barrier to air travel and creates a competitive transport substitute for many people.

Business Travelers

The use of 100- to 180-seat aircraft provides opportunities for low-cost carriers to serve destinations more frequently than some of the region's large, network carriers. These hub-and-spoke airlines sometimes serve routes only once or twice each day, using high capacity, twin-aisle aircraft. A high number of daily flights offers business travelers flexibility and may increase their use of low-cost carriers.

Increasing Urbanization

The development of new urban centers is expected to create new destinations for regional travel. Demand for flights that do not serve the region's capital cities will likely come as a result of growth of secondary cities. Increasing regional urbanization is expected to lead to the development of new urban centers, creating new destinations for regional travel. In addition, airports in secondary cities are usually less congested than national gateway airports and may offer near-term aeronautical charge incentives to attract new air service. The table below highlights the relatively low levels of urbanization throughout Asia.

POPULATION INDICATORS
Select Countries in Asia

	Population			Population in cities >1 million	
Country	2002 (actual)	2002 to 2015 annual growth	Urbanization (2002) (a)	2000 (actual) (b)	2015 (forecast) (b)
Malaysia	24,305,000	1.5%	59%	6%	6%
Thailand	61,613,000	0.6%	20%	12%	15%
Indonesia	211,716,000	1.1%	43%	10%	13%
Singapore	4,164,000	1.1%	100%	100%	100%
Bangladesh	135,684,000	1.5%	26%	13%	18%
Brunei	351,000	n.a.	n.a.	n.a.	n.a.
Cambodia	13,172,000	1.5%	18%	n.a.	n.a.
Laos	5,530,000	2.1%	20%	n.a.	n.a.
Myanmar	48,786,000	1.0%	29%	9%	11%
Philippines	79,944,000	1.6%	60%	16%	17%
Vietnam	80,424,000	1.1%	25%	13%	14%
China	1,280,400,000	0.6%	38%	14%	17%
India	1,048,641,000	1.2%	28%	10%	12%
Weighted Average (c)		1.0%			
Weighted Average (d)		1.2%			

Notes:

(a) share of total population living in urban areas

(b) share of total population

(c) all countries shown, excluding Brunei

(d) all countries shown, excluding Brunei, China and India

Full-service Carriers in Southeast Asia

Within Southeast Asia, five carriers in April 2004 accounted for approximately 52% of total seats departing for destinations within the region: MAS (15%), THAI (12%), Garuda Indonesia (9%), Philippine Airlines (9%), and Singapore Airlines (7%). These carriers share several common characteristics:

- They operate as full-service carriers, with domestic (except Singapore Airlines), regional, and intercontinental services.
- They operate a wide variety of aircraft types.
- Most of their activities are used to feed hub operations at national gateway airports.
- The airlines offer several classes of service (including first and/or business classes of service on most flights)
- They market their products to all passenger segments: local and transfer passengers, tourists and business travelers, locals and foreigners.
- The airlines serve as national flagship carriers, they have strong government support, and route decisions are sometimes influenced by political and other factors.

For intra-regional activity, these full-service carriers primarily compete against other locally based airlines that have many of the same characteristics of these major full-service carriers. Non-local carriers (European carriers, for example) compete with local carriers on only a small number of intra-regional routes. Low-cost carrier services are providing a new form of competition for the region's full-service carriers.

Low-cost Carrier Development in Asia

International markets such as the United States, Europe and Australia have demonstrated the growth potential of the low-cost carrier business. Low-cost carriers now account for significant shares of activity in the world's major aviation markets. In the United States, low-cost carriers now comprise approximately 25% of total domestic passenger departures. In Australia in April 2004, one low-cost carrier accounted for 25% of all domestic departing seats, while in some European cities, low-cost carriers provided 35% of seat capacity for departing Western European flights. Low-cost carrier market shares in these regions are expected to continue to grow and could, in certain markets, account for more than 50% of all passenger activity.

In Asia, low-cost carrier activity is beginning to grow, albeit very rapidly. In Malaysia, AirAsia introduced low-cost, no-frills services in January 2002. As at June 30, 2004, the airline has grown to service 28 destinations domestically and internationally and operated 17 aircraft (including four aircraft operated by Thai AirAsia).

Launched in Bangkok in February 2004, Thai AirAsia competes with low-fare carrier (Orient Thai Airways marketed as One-Two-Go), as well as several other carriers. In July 2004, THAI helped launch Nok Air, a low-cost carrier that is initially serving domestic markets from Bangkok.

Other low-fare and low-cost carriers in the region include several current and planned Singapore-based carriers. Valuair launched services in May 2004 and operates two Airbus A-320s, to Bangkok, Hong Kong, and Jakarta. Tiger Airways, established by Singapore Airlines, plans to offer five to ten destinations by the end of 2004 and to have a 12-plane fleet of 180-seat Airbus A-320s by 2006. Qantas Airways is working to establish a Singapore-based low-cost carrier similar to its recently launched JetStar operation in Australia. Cebu Pacific Air operates in the Philippines with a fleet of Boeing DC-9s. Indonesia's Lion Air was founded in 2000 and has a fleet of 24 aircraft consisting of nineteen MD80 series and five feeder aircrafts of DHC-8-301.

Competitive Landscape

The number of Asian low-cost carriers has increased since the Asian aviation market first witnessed the emergence of the alternative low-cost carrier model. In the past year, several full-service national carriers in the Asia-Pacific region have helped to establish new low-cost carriers.

Low-cost Carrier Market Shares in the Region

Summarized in the table below are estimated current low-cost carrier and low-fare carrier market shares for domestic and international activities in select Asian countries. The estimates are provided as at June 1, 2004, and are expected to grow rapidly for some of these countries over the coming years.

CURRENT LOW-COST CARRIER AND LOW-FARE CARRIER MARKET SHARES (ESTIMATED)
Departing Seats
as at June 1, 2004

	Domestic activity		International activity(a)	
Country	Share	Carriers included	Share	Carriers included
India	1%	Air Deccan	—	—
Indonesia	21%	Lion Air	8%	AirAsia, Lion Air, Valuair
Malaysia	25%	AirAsia	5%	AirAsia, Lion Air
Philippines	33%	Cebu Pacific Air	—	—
Singapore	n.a.	—	2%	Thai AirAsia, Lion Air, Valuair
Thailand	20%	Orient Thai(b), Thai AirAsia	2%	AirAsia, Thai AirAsia, Valuair

Notes:
(a) within Southeast Asia region
(b) operating as One-Two-Go
n.a. = not applicable

Medium-term Passenger Forecasts for Southeast Asia

Boeing reports that passenger air travel within Southeast Asia, as measured in RPK, grew at a compounded average annual growth rate of 7.5% from 1985 to 2002. Passenger activity within and between Southeast Asia and China grew at 9.3% per year while global RPK grew at 4.4% per year.

S-A-P believes that growth rates for the passenger aviation industry in the region will continue to be strong. Some of the optimism for rapid growth in Southeast Asian aviation is a result of China's continued economic expansion and the liberalization of travel policies for its citizens. In particular, Chinese government aviation officials have recently indicated an interest in building a more liberal air service framework between China and the ASEAN countries. China also recently signed an "open skies" agreement with Thailand, allowing nearly unrestricted air services between the countries. Liberal aviation agreements allow for increased competition on routes which lowers air fares, thereby stimulating increased activity levels.

Air passenger activity in China has risen from 2.3 million in 1978 to 87.6 million in 2003. China's total domestic activity is now the world's second largest, following that of the United States. To accommodate the expected, rapid increases in aviation activity, the government plans to make available 237 airports by 2010.

Average annual passenger growth rates with and between select regions in the world are set out in the table below.

AVERAGE ANNUAL PASSENGER GROWTH RATES
Activity (in RPKs) Within and Between Select Regions of the World
1985 to 2002

	CAAGR				
	1985 to 1990	**1990 to 1995**	**1995 to 2000**	**2000 to 2002**	**1985 to 2002**
Within regions					
within Africa	1.6%	0.1%	5.6%	4.5%	2.7%
within Central America	2.2%	5.0%	5.6%	−1.2%	3.6%
within China	16.7%	25.4%	5.4%	9.3%	14.8%
within Europe	8.7%	3.5%	7.5%	1.5%	5.9%
within Middle East	1.9%	1.3%	5.7%	0.3%	2.6%
within North America	4.6%	2.6%	5.3%	−4.5%	3.1%
within Northeast Asia	9.2%	6.1%	3.2%	3.7%	5.9%
within Oceania	7.1%	10.2%	2.9%	1.0%	6.0%
within South America	2.8%	3.2%	6.2%	−0.8%	3.5%
within Southeast Asia	11.1%	12.5%	−0.1%	6.3%	7.5%
within Southwest Asia	2.1%	5.6%	1.0%	4.3%	3.0%
Between Southeast Asia and:					
China	12.4%	9.7%	5.0%	12.2%	9.3%
Europe	11.8%	7.3%	7.8%	0.4%	7.9%
Middle East	−6.2%	13.4%	3.1%	0.1%	2.7%
North America	13.8%	11.1%	4.4%	−2.4%	8.2%
Northeast Asia	15.2%	6.4%	1.8%	5.9%	7.5%
Oceania	14.7%	6.4%	6.9%	0.5%	8.2%
World total	6.8%	3.3%	5.7%	−1.7%	4.4%

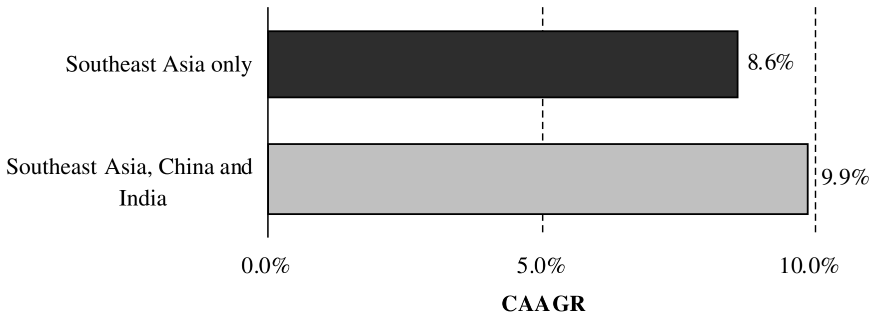
Notes:

Northeast Asia: Japan, North Korea, and South Korea

Southeast Asia: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam

S-A-P's medium-term growth forecasts for activity within the Southeast Asia region and for activity within and between Southeast Asia, China, and India, are shown below.

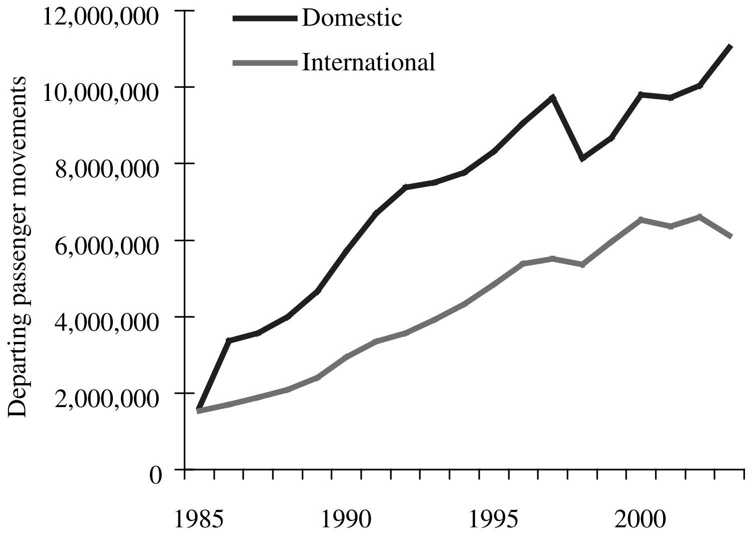
DOMESTIC AND INTERNATIONAL (REGIONAL) PASSENGER GROWTH
2003 to 2008 (Forecasts)



Malaysian Aviation Industry Overview

From 1985 to 2003, domestic passenger movements at Malaysian airports grew strongly at a compounded average annual growth rate of 11.2%, as shown in the figure below. During the same period, international passenger movements grew at 8.0% per year.

HISTORIC ANNUAL GROWTH RATES
Malaysian Airports
1985 to 2003



Domestic	CAAGR
1985 to 1990	28.7%
1990 to 1995	7.8%
1995 to 2000	3.3%
2000 to 2003	4.0%
1985 to 2003	**11.2%**
International	
1985 to 1990	13.9%
1990 to 1995	10.5%
1995 to 2000	6.1%
2000 to 2003	-2.1%
1985 to 2003	**8.0%**

Note:

Excludes Johor Bahru international activity for November and December 2003

Low-cost Carrier Market Shares in Malaysia

From January 2004 to June 2004, AirAsia accounted for 23.1% of total domestic passenger movements in Malaysia, and 24.1% of domestic passenger movements on the routes on which it operates. The table below summarizes the airline's domestic market share levels since 2002.

DOMESTIC DEPARTING PASSENGER MOVEMENTS
Airports in Malaysia
2002 to June 2004

	All routes			
Period	**Other carrier**	**AirAsia (b)**	**Total (c)**	**AirAsia share**
2002	9,038,363	1,010,582	10,048,945	10.1%
2003	8,655,829	1,780,128	10,435,957	17.1%
2004 (d)	4,506,179	1,351,741	5,857,920	23.1%

	AirAsia routes only (a)			
Period	**Other carrier**	**AirAsia (b)**	**Total (c)**	**AirAsia share**
2002	5,829,965	1,010,582	6,840,547	14.8%
2003	7,715,314	1,780,128	9,495,442	18.7%
2004 (d)	4,266,254	1,351,741	5,617,995	24.1%

Notes:

(a) Routes on which AirAsia operated services (calculated monthly)

(b) Source: AirAsia Berhad, July 2004

(c) Source: Malaysia Airports Holding Bhd., and Senai Airport Terminal Services Sdn Bhd., July 2004

(d) January 1, to June 30, 2004 only

Departing movements are calculated as 50% of total (arriving and departing) movements

Medium-term Forecasts for Malaysia

Malaysia's domestic and international markets are expected to enjoy strong growth rates, with international activity growing more rapidly than domestic activity. The country has an excellent tourist infrastructure and good average per capita income levels (77% higher than those in Thailand and 399% higher than those in Indonesia).

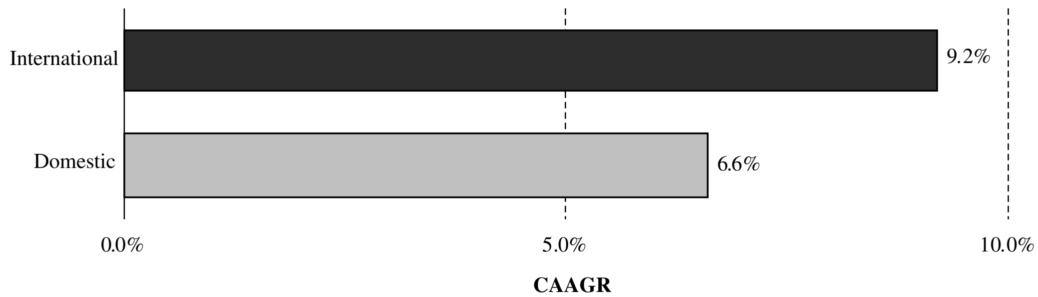
International. International activity between Malaysia and other countries in Southeast Asia, China, and India will benefit from increases in population, GDP, and per capita income levels in the region, as well as from any further liberalization of regional travel and trade regulations.

Domestic. The share of population living in urban areas is forecasted to increase from 59% in 2002 to 66% in 2015. Also, domestic air travel is buoyed by the presence of low-cost carrier services and the limited competitive substitutes for travel between Peninsula and East Malaysia. On the other hand, several of Malaysia's major domestic routes are already served by low-cost carrier services, so much of the overall growth on these routes will come from general socioeconomic increases, rather than the stimulation that comes from the introduction of low-cost carrier air fares.

Passenger Activity Forecasts for Malaysia

S-A-P's forecasts for domestic and international (only to/from Southeast Asia, China and India) passenger growth rates for Malaysia are summarized in the figure below.

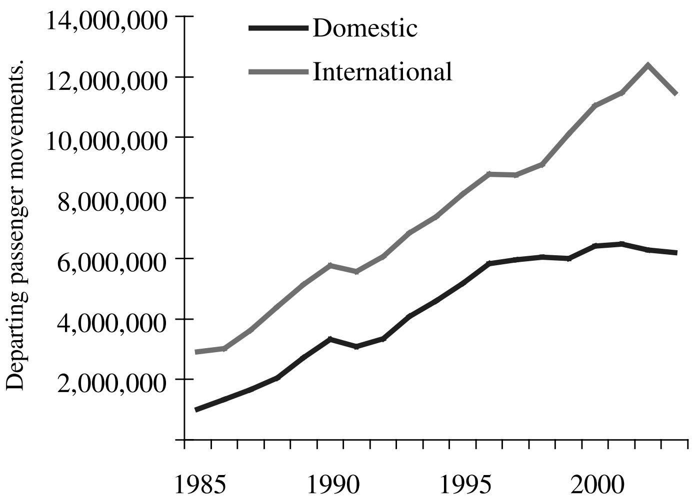
PASSENGER GROWTH
Malaysia
2003 to 2008 (Forecasts)



Thailand Aviation Industry Overview

From 1985 to 2003, domestic passenger movements at Thailand's major international airports (those located in Bangkok, Phuket, Chiang Mai, Chiang Rai, and Hat Yai) grew at a compounded average annual growth rate of 10.6%, as shown in the figure, below. During the same period, international passenger movements grew at 7.9% per year. Average growth rates from 2000 to 2003 were low due substantially to concerns relating to SARS in 2003.

HISTORIC ANNUAL GROWTH RATES
Major Thai Airports (Bangkok, Phuket, Chiang Mai, Chiang Rai, and Had Yai)
1985 to 2003



Domestic	CAAGR
1985 to 1990	26.6%
1990 to 1995	9.3%
1995 to 2000	4.4%
2000 to 2003	-1.1%
1985 to 2003	**10.6%**
International	
1985 to 1990	14.6%
1990 to 1995	7.2%
1995 to 2000	6.3%
2000 to 2003	1.3%
1985 to 2003	**7.9%**

Low-cost Carrier Market Shares in Thailand

Thai AirAsia launched operations in February 2004 and serves domestic and international routes from Thailand. By June 2004, Thai AirAsia and another Thailand-based low-fare carrier, Orient Thai Airlines (operating as One-Two-Go), accounted for approximately 20% of all domestic passenger movements in Thailand.

AirAsia, Thai AirAsia, and Valuair (a Singapore-based low-cost carrier) were responsible for approximately 2% of total international passenger movements at Bangkok International Airport in June 2004. At Phuket International Airport, low-cost carrier service in June 2004 accounted for 5% of the airport's total international passenger movements.

Additional competition in Thailand will come from Nok Air, a low-cost carrier established by THAI. Nok Air commenced operations on 23 July 2004, with flights between Bangkok and three domestic destinations (Chiang Mai, Hat Yai, and Udon Thani), using B-737-400s leased from THAI. Nok Air plans to operate additional domestic flights within the coming months.

The table below summarizes the domestic market share growth of Thai AirAsia at Bangkok International Airport.

DOMESTIC PASSENGER MOVEMENTS
Bangkok International Airport
January 2004 to June 2004

Airline	Jan 2004	Feb 2004	Mar 2004	Apr 2004	May 2004	Jun 2004
Thai AirAsia	—	42,195	48,822	60,201	80,007	79,991
Other airlines	885,348	759,885	757,414	770,109	666,296	593,433
Total	885,348	802,080	806,236	830,310	746,303	673,424
Thai AirAsia and Orient Thai share	3.6%	6.7%	7.3%	13.7%	19.1%	20.6%

Note: Excludes passengers transiting/transferring with some international flights

Medium-term Forecasts for Thailand

Thailand is expected to continue posting strong growth rates for passenger air travel. Thailand's international growth is expected to be particularly robust for several reasons:

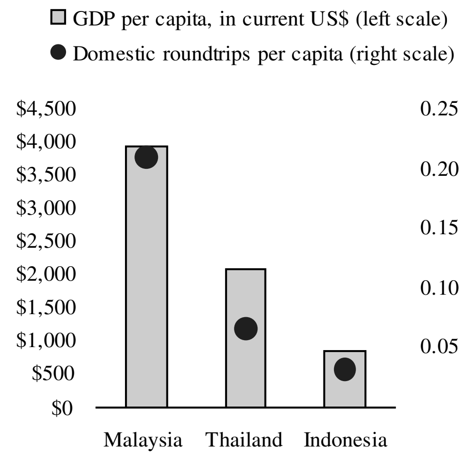
- *Proximity to China.* With its strong economic growth and increasingly relaxed restrictions on travel to foreign destinations, travelers from the world's most populous country are expected to create significant demand for leisure and business travel to Thailand.

- *Location between South Asia and China.* Thailand's role as a transit point between China and South Asia, which includes India (the world's second most populous country), Pakistan (sixth), and Bangladesh (eighth) will grow even stronger as the people of these countries start to travel more frequently.

- *Liberalization of aviation agreements.* Thailand has become more liberal with its aviation agreements, recently signing an "open skies" agreement with China. Thailand began liberalization of its domestic markets in 2000.

- *Development of new airport capacity.* Bangkok's new Suvarnabhumi Airport is scheduled to open in late 2005, with an opening day capacity of 45 million annual passengers ("MAP") and an ultimate capacity of more than 100 MAP. The Thai Government is studying options to convert the existing airport (with a design capacity of 36.5 MAP) into a facility for low-cost carriers.

COMPARISON OF PER CAPITA GDP LEVELS AND DOMESTIC AIR PASSENGER ROUNDTRIPS
2002



- *Tourist infrastructure.* Thailand's well-developed tourist infrastructure will continue to attract leisure travelers.

- *Urbanization.* Air travel is expected to increase in Thailand with rising levels of urbanization. The current urbanization level in Thailand was only 20% in 2002.

Domestic aviation activity should grow as a result of rising per capita income levels, increased domestic and inbound tourism, and market stimulation from the recent launch of several low-cost carriers on domestic routes.

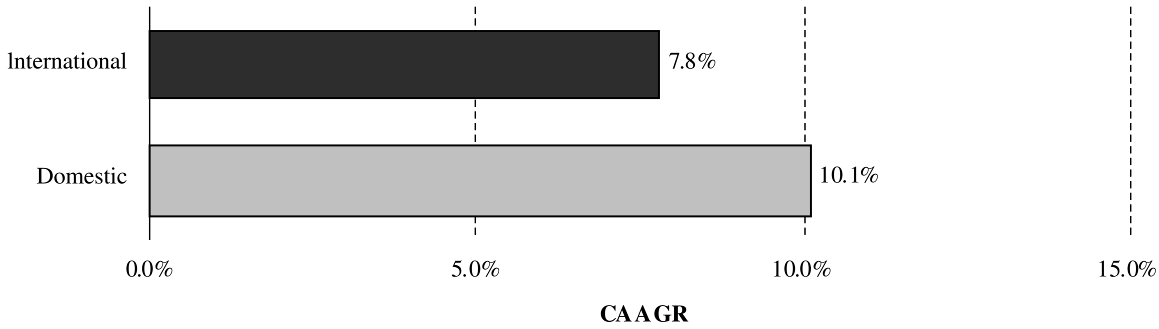
As shown in the figure at right, domestic airline roundtrips per capita for Malaysia and Indonesia in 2002 closely correlate to per capita levels of GDP. This correlation is due, in part, to low average domestic air fares. In Malaysia, the country's low-cost carrier operator served approximately one-half of the nation's major commercial airports, while in Indonesia, a competitive aviation industry helped to keep domestic air fares low.

In Thailand, on the other hand, little airfare competition existed on most domestic routes. As a result, the number of domestic air passenger roundtrips per capita was relatively low. With the recent launch of several low-cost carriers in Thailand's domestic market, it is expected that domestic air passenger roundtrips will rapidly approach 0.10 per capita.

Passenger Activity Forecasts for Thailand

Forecasts of domestic and international (only to/from Southeast Asia, China and India) passenger growth rates for Thailand are summarized in the figure below.

PASSENGER GROWTH
Thailand
2003 to 2008 (Forecasts)

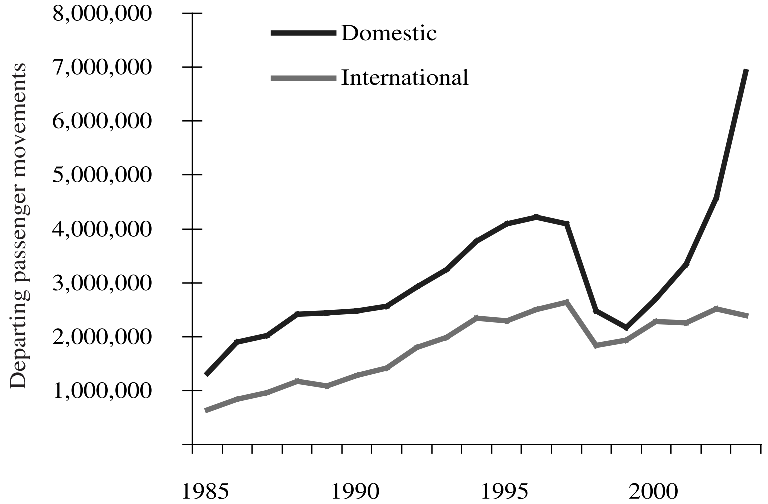


Indonesia Industry Overview

From 1985 to 2003, domestic passenger movements at Jakarta's Soekarno Hatta International Airport, the country's busiest airport and national gateway, grew at a compounded average annual growth rate of 9.6%, as shown in the figure below. During the same period, international passenger movements grew at an average rate of 7.6% per year.

More recently, the airport has posted a compounded average annual growth rate of 36.9% for domestic passengers from 2000 to 2003, while international passenger levels increased 1.6% per year.

HISTORIC ANNUAL PASSENGER GROWTH RATES
Soekarno Hatta International Airport
1985 to 2003



Domestic	CAAGR
1985 to 1990	13.4%
1990 to 1995	10.5%
1995 to 2000	-8.0%
2000 to 2003	36.9%
1985 to 2003	**9.6%**
International	
1985 to 1990	14.8%
1990 to 1995	12.4%
1995 to 2000	-0.1%
2000 to 2003	1.6%
1985 to 2003	**7.6%**

Medium-term Forecasts for Indonesia

It is expected that Indonesia's domestic and international markets will enjoy strong long-term growth rates. Aviation activity, for both domestic and international markets, will benefit from increases in population, urbanization levels, GDP, and per capita income levels, as well as from the likely further liberalization of travel and trade regulations.

Size and growth of population. Indonesia is the most populous country in Southeast Asia (235 million people, as at July 2003) and the fourth most populous country in the world. The population has been forecasted to increase nearly 50% over the next 50 years.

Urbanization. Forecasters have estimated that the share of population living in urban areas would increase from 43% in 2002 to 55% in 2015, one of the largest shifts projected for a Southeast Asian country.

Low per capita income levels. Although the country's per capita income levels are low, the country's total gross national income is the highest in Southeast Asia.

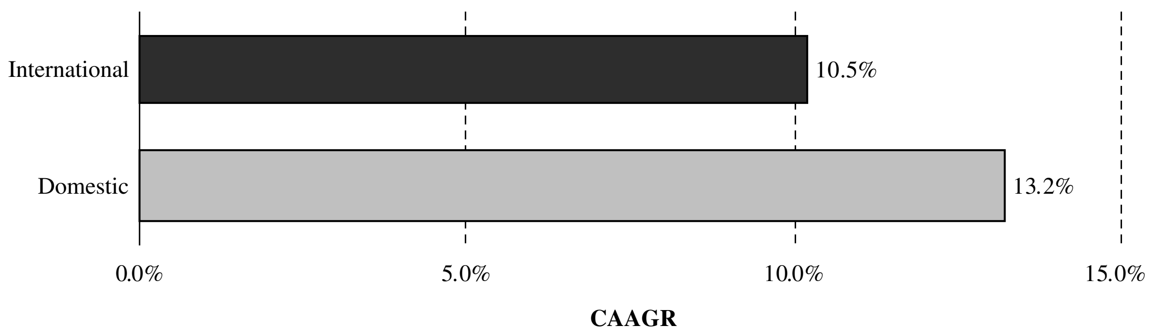
Limited land and sea transport substitutes. Nearly all of Indonesia's international travel is by air, with limited land and sea substitutes. Within the country, long distances (for example, 2,281 km from Medan to Denpasar) and large bodies of water separate major population centers.

The effects of potential civil unrest or violence could moderate, over short-term periods, some of the air travel stimuli that will result from the economic and population growth factors described above.

Passenger Activity Forecasts

Forecasts of Indonesia's domestic and international (only to/from Southeast Asia, China and India) passenger growth rates are shown in the figure below.

PASSENGER GROWTH
Indonesia
2003 to 2008 (Forecasts)



Potential Constraints to Industry Growth and Other Challenges

Challenges

- Access to new markets, given market regulations and airport capacity. Although some countries are liberalizing their air service agreements, access to all markets in the future is uncertain. In addition, access to landing and takeoff slots at some major hub airports in the region are not available during certain peak periods of the day.
- Potential over expansion of low-cost carriers. In an effort to establish first mover advantages, numerous low-cost carriers are scheduled for launch in the next 12 months. Given that not all markets in the region have been liberalized, many of these carriers will compete with each other on the same, high-density routes.
- Competition from other carriers. In an effort to attract or maintain market shares, strong airfare competition is expected on high certain routes. Between Bangkok and Singapore/Johor Bahru, for example, AirAsia, Thai AirAsia, and Valuair will likely compete with two planned newcomers, Tiger Airways and a Qantas Airways affiliated low-cost carrier. In addition, nine other local and foreign carriers currently serve this market.

The Opportunities for Industry-wide Aviation Activity Growth Could be Offset by:

- Increased fuel prices and/or unfavorable currency exchange levels could constrain aviation demand if air and other travel costs increase and travelers' disposable income levels decrease.
- Regional conflicts or scares. Civil unrest, terrorist activities, or other events could constrain future activity levels.
- Insufficient airport or airspace capacity.
- Travel restrictions. Government restrictions on travel, by limiting the number of entry/exit visas issued or by imposing high visa costs, could limit future aviation growth.

BUSINESS

Overview

AirAsia is a leading low-cost carrier in Southeast Asia. The Group focuses on providing high-frequency services on short-haul, point-to-point domestic and international routes. AirAsia implemented the low-cost carrier business model in Southeast Asia when it was re-launched as a low-cost carrier following the acquisition of the Company by Tune Air in December 2001. The Group is the only regional carrier to operate and have hubs in two domestic markets and have international routes originating from two countries. Currently, AirAsia operates from two hubs in Malaysia, namely KLIA and Senai, while Thai AirAsia operates from DMA.

The Group is one of the largest low-cost carriers in Southeast Asia, with a fleet of 24 aircraft (of which 17 aircraft are operated by AirAsia, five aircraft are leased to and operated by Thai AirAsia and two aircraft are expected to be in operation (one in Malaysia and one in Thailand) by the beginning of November 2004). The Group intends to increase its fleet size to 36 aircraft by June 30, 2005, at which time AirAsia expects that it will operate 25 aircraft and Thai AirAsia will lease from AirAsia and operate 11 aircraft. In addition, AirAsia is currently considering the Proposed Acquisition. If it proceeds with the Proposed Acquisition, AirAsia expects that these aircraft would be delivered over a period of several years, commencing as early as January 2006. See "Business — AirAsia's Operations — Fleet — Future Plans".

The Group's strategy is to target markets within a three-and-a-half hour flight time from its hubs. This strategy gives it access to Southeast Asia's population of approximately 500 million people. AirAsia believes that the growing population in Malaysia (approximately 24 million people), Thailand (approximately 62 million people) and Indonesia (approximately 212 million people) provides an attractive market for the Group to stimulate air travel among a population that previously could not afford to travel by air or lives in areas not serviced by other airlines.

AirAsia's cost per ASK of RM0.094 (U.S.$0.025), for the year ended June 30, 2004, was among the lowest globally. AirAsia's low costs, low fares, strong brand and marketing, reliable service and first mover advantage have enabled it to significantly expand its operations. AirAsia's passenger volumes grew by approximately 91.7% from approximately 1.5 million guests for the year ended June 30, 2003 to approximately 2.8 million guests for the year ended June 30, 2004. Thai AirAsia has been operational since February 2004 and has seen passenger volumes increase from approximately 49,000 guests for the month of February 2004 to approximately 100,500 guests for the month of June 2004.

AirAsia has also achieved strong growth in revenue from passenger seat sales since December 2001. Revenue from passenger seat sales increased by 122.9% from RM87.9 million for the 15 months ended June 30, 2002 to RM195.9 million for the year ended June 30, 2003 and continued to increase by 77.7% to RM348.0 million for the year ended June 30, 2004. Similarly, the Group's fleet size grew from three aircraft as at June 30, 2002 to seven aircraft as at June 30, 2003 and 17 aircraft as at June 30, 2004. As at the date of this Offering Circular, the Group's fleet size had increased to 24 aircraft. AirAsia also achieved strong EBITDAR margins of 28.7% and 29.8% for the years ended June 30, 2003 and 2004, respectively.

AirAsia has been able to achieve this success during an extraordinarily difficult period for the airline industry caused by, among other things, the adverse effects of terrorist attacks, the wars in Afghanistan and Iraq, SARS, and rising fuel prices and insurance premiums. Its success is also notable given that since its inception, AirAsia has competed against a strong incumbent operator with significantly greater financial resources.

Through Thai AirAsia, a low-cost carrier operated as a joint venture with Shin Corporation, AirAsia operates domestically and internationally out of Thailand. As a result of the encouraging performance of Thai AirAsia to date and the favorable indications of interest generated in other regional markets, AirAsia plans to pursue opportunities to selectively implement its joint venture business model in other regional markets and develop the Group into a carrier serving some of Asia's most attractive domestic and international markets. For example, AirAsia is considering launching a joint venture in Indonesia. See "Business — AirAsia's Operations — Route Network — Future Plans".

AirAsia has an experienced and dynamic senior management team. Most of its senior management team has been with the Company since it commenced operations as a low-cost carrier in January 2002. AirAsia is led by Tony Fernandes, its Group Chief Executive Officer, whose experience includes a successful career in the music industry (most recently as Vice President, ASEAN at Warner Music South East Asia). Conor Mc Carthy, a non-executive Director of the Company and the former Director of

Group Operations of Ryanair, has also been integral to AirAsia's success. In addition, AirAsia's senior management team includes several personnel with extensive experience in the Malaysian and international airline industry.

To achieve AirAsia's plans, its senior management has formulated several strategies, the principal components of which are to stimulate demand by offering low fares, further expand the Group's operations within Asia and increase frequencies on the Group's most profitable routes, continue to minimize the Group's operating costs, invest in and enhance AirAsia's brand, continue to focus on customer service, and optimize and develop new revenue streams. The Initial Public Offering is intended to further strengthen the Group's financial position. As it expands its operations, the Group will seek to minimize costs by leveraging its economies of scale to negotiate better terms with its suppliers and with the airports at which it operates.

History and Development

The Company was incorporated as a private limited company in Malaysia in 1993. The initial shareholders following incorporation were Hicom Berhad with a 75% interest and Mofaz Air with a 25% interest. Other than the initial capitalization, Mofaz Air did not participate in a number of subsequent cash calls by the Company. On August 18, 1995, Hicom Berhad transferred its entire shareholding in the Company to Hicom Holdings Berhad ("Hicom").

In 1996, the Company became Malaysia's second national carrier, and officially commenced operations as a full-service domestic airline with two aircraft. In December 2001, Tune Air acquired a 99.25% shareholding in the Company from Hicom. Following the acquisition, under the stewardship and vision of its current senior management, AirAsia achieved the following major milestones in the course of its development:

2001

- Lease agreements for the Company's two aircraft were renegotiated resulting in a significant reduction of average monthly aircraft leasing costs

2002

- The Company's nationwide call center at Kelana Square commenced operations, enabling guests to pay for their reservations by phone
- The Company's ticketless service was launched
- The Company's Internet booking and on-line payment service commenced operations
- The Company expanded its fleet to four Boeing 737-300 aircraft by leasing two additional aircraft
- The Company began operations at KLIA

2003

- AirAsia expanded its fleet to 11 aircraft, nine of which were leased and two of which were purchased
- IDBIF, CAAL and DCL acquired a 26% shareholding in the Company for RM98.8 million
- AirAsia introduced the world's first airline booking by SMS from a guest's mobile phone
- AAIL formed a joint venture with Shin Corporation to invest in Thai AirAsia
- AirAsia commenced operations from Senai
- AirAsia started international flights between Kuala Lumpur and Thailand

2004

- AirAsia expanded its fleet to 24 aircraft (of which 17 aircraft are operated by AirAsia, five aircraft are leased to and operated by Thai AirAsia and two aircraft are expected to be in operation (one in Malaysia and one in Thailand) by the beginning of November 2004) of which 18 were leased and six were purchased

- Thai AirAsia, managed by the Company, commenced operations with flights to Chiang Mai, Phuket, Hat Yai, Khon Kaen, and Singapore
- AirAsia commenced international flights to Indonesia
- The Company acquired a 99.8% interest in AAIL

Awards and Accolades

The Group and its CEO, Tony Fernandes, have received the following awards and accolades:

AirAsia

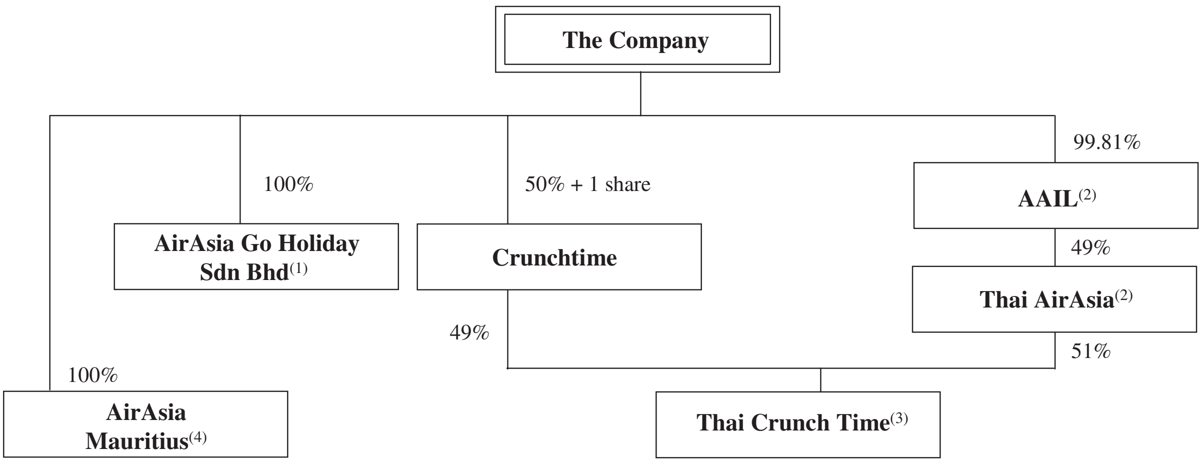
- Asia Pacific Airline of the Year 2003 by Center for Asia Pacific Aviation, an independent private aviation consultancy company
- Air Finance Journal's Development Airline of the Year 2003
- Top 100 Company, CIO 100 2004 by CIO Asia, a subsidiary of International Data Group
- www.airasia.com voted as the most popular website for online shopping in the 11th Malaysia Internet User Survey conducted by AC Nielsen Consult
- Awarded Malaysian SuperBrand status by SuperBrands International based on evaluation by professionals from the branding and media industry and more importantly, results from a consumer evaluation from a regional study conducted by SuperBrands International

Tony Fernandes, CEO of the Group

- Emerging Entrepreneur of the Year 2003, Ernst & Young Entrepreneur of The Year Malaysia 2003
- Malaysian CEO of the Year 2003, American Express Corporate Services & Business Times
- International Herald Tribune award for the Visionaries & Leadership Series in 2003

Organization

The following chart shows the corporate structure and principal operating companies of the Group as at the date of this Offering Circular.



Notes:

(1) Operating company for "Go Holiday" and "Get a Room"

(2) Effective July 1, 2004, the Company will equity account for Thai AirAsia's results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Factors Affecting AirAsia's Results of Operations — Results of Significant Associate"

(3) Thai Crunch Time is 49.4% effectively owned by the Company

(4) Leasing entity

Competitive Strengths

AirAsia believes that its key business strengths are as follows:

Low Cost Operations

For the year ended June 30, 2004, AirAsia's cost per ASK of RM0.094 (U.S.$0.025) was among the lowest globally. AirAsia has achieved significant cost reductions through the following:

- *Single-class, no frills service.* The Group operates a single-class service with no amenities such as complimentary in-flight meals and entertainment, loyalty programs and airport lounges. The Group's seating configuration maximizes seating capacity by fitting 148 seats in its Boeing 737-300 aircraft (compared to the passenger seat capacity of 132 for typical Boeing 737-300 aircraft with a two-class configuration).

- *High aircraft utilization and efficient operations.* The Group uses its aircraft and staff efficiently. In general, the Group is able to make more round trips per aircraft per day because it operates point-to-point services and maintains low turnaround times. AirAsia operated its aircraft approximately 13 block hours a day for the year ended June 30, 2004. Its average turnaround time is approximately 25 minutes, compared to the 45- to 120-minute turnaround times typical of full-service airlines. In 2003, Boeing recognized AirAsia as a leader in terms of having one of the best utilization rates and dispatch reliability among airlines that fly the Boeing 737-300 aircraft. The Group also streamlines administrative functions by hiring employees who are able to perform various roles. AirAsia's ratio of employees per aircraft has decreased by 11.7% from 120 per aircraft as at March 31, 2001 to 106 per aircraft as at June 30, 2004.

- *Low fixed costs.* When AirAsia became a low-cost carrier, it successfully negotiated lower lease charges for the Group's aircraft, lower rates for long-term maintenance contracts and lower airport fees. AirAsia's average monthly contractual lease charge per aircraft decreased by more than 60% from the year ended March 31, 2001 to the year ended June 30, 2004. Aircraft maintenance contracts with third parties were obtained through a competitive bidding process which resulted in lower rates. The Group's high safety and maintenance standards have allowed it to procure favorable rates on its insurance policies. In addition, AirAsia actively seeks to enter into jet fuel derivative contracts to lessen the impact of rising fuel prices.

- *Low distribution costs.* The Group has low distribution costs. The Internet is the least expensive distribution channel because its use requires lower overhead and operating costs. To encourage more Internet bookings, the Group offers its lowest fares through the Internet. Bookings on the Internet have increased from 5% of reservations made when online reservations first became available in May 2002 to approximately 50% in August 2004. AirAsia also reduces distribution costs by not using a global distribution network service. AirAsia employs a fully ticketless system, which saves administrative costs and related expenses.

- *Single aircraft type.* Operating a fleet of similar aircraft leads to increased cost savings as maintenance is simplified, spare parts inventory requirements are reduced, scheduling is more efficient and training costs are lower. In the event AirAsia proceeds with the Proposed Acquisition and acquires additional aircraft of a different type than the Boeing 737-300, AirAsia expects that such aircraft would be delivered over a period of several years, commencing as early as January 2006, and the Group's entire fleet would gradually shift to the new aircraft type.

- *Maximizing the benefits of regional media coverage.* Because AirAsia has successfully implemented the low-cost carrier model in Southeast Asia, it receives regular coverage from regional media outlets. AirAsia utilizes such opportunities to promote and increase its brand awareness without incurring additional sales and marketing expenses.

Despite operating in some of the busiest airports in Southeast Asia and competing against some of the leading global airlines, AirAsia's low-cost structure has enabled it to be profitable while offering significantly lower average fares than its competitors on both domestic and international routes. AirAsia believes its low cost operations puts it in a better position to endure a decrease in fares as a result of any deterioration in market conditions, the entry of new competition into AirAsia's markets or aggressive pricing by competitors.

Proven Business Model and Profitable Operations

AirAsia adopted the low-cost carrier model in January 2002, and achieved a net profit by the year ended June 30, 2003, despite limited operations and financial resources. By strictly adhering to a proven business model, AirAsia maintained profitability through 2003 and the first half of 2004, a difficult period for the airline industry due to global economic weakness exacerbated by SARS, high oil prices driven by the war in Iraq and terrorism fears.

AirAsia has used its experience and expertise in Malaysia to expand into Thailand through Thai AirAsia's operations. Thai AirAsia has been operational since February 2004 and has seen passenger volumes increase from approximately 49,000 guests for the month of February 2004 to approximately 100,500 guests for the month of June 2004. Management believes that the proven business model employed in Malaysia and Thailand can be replicated in other countries. Because of its Asian management, strong performance and brand recognition, AirAsia believes that it is better positioned to form joint ventures in other locations within Southeast Asia compared to other established low-cost carriers based outside Asia.

Ability to Penetrate and Stimulate a Large Potential Market

AirAsia's corporate slogan "Now Everyone Can Fly" embodies its focus on providing affordable air travel to everyone, especially to first-time flyers and fare-conscious leisure and business travelers who may otherwise have used alternative modes of transportation. The Group targets the region in Southeast Asia within a three-and-a-half hour flight time from AirAsia's hubs at KLIA and Senai, and Thai AirAsia's hub at DMA. This market encompasses a population of approximately 500 million people. Only a small percentage of this market regularly travels by air.

AirAsia believes that certain segments of this market have been under-served historically and that the Group's low fares stimulate travel within these market segments. For the years ended June 30, 2003 and 2004, AirAsia's passenger volumes were 1.5 million guests and 2.8 million guests, respectively. According to S-A-P, AirAsia's share of domestic departing passenger movements for airports in Malaysia increased from 10.1% for the year ended December 31, 2002, to 17.1% for the year ended December 31, 2003, and to 23.1% for the six months ended June 30, 2004. The Group's low-cost carrier model, which offers affordable air travel, is significantly more attractive than other inexpensive modes of transportation in Southeast Asia particularly because the region comprises countries that are separated by sea and/or difficult terrain to travel by means of ground transportation.

High Maintenance and Safety Standards

The Group's commitment to safety is a priority of the Company and its management. The Group's fleet is maintained in accordance with a program prescribed by Boeing, the manufacturer of the Group's aircraft. The Group's operations are subject to Malaysian safety standards established by the DCA, which AirAsia believes are as rigorous as those of the U.S. Federal Aviation Authority, the United Kingdom's Civil Aviation Authority and Europe's Joint Aviation Authority. Since it began operations in 1996, none of the Group's aircraft have been involved in any major accidents involving personal injury to its guests and employees, terrorist incident or other disaster. As a result of the Group's strong safety and maintenance record, The Group has been able to maintain low insurance premiums and maintenance costs.

Dynamic Brand

AirAsia believes that it has established a dynamic and popular brand. The brand is positioned to project the image of a safe, reliable, low-cost airline that places a high emphasis on customer service while providing an enjoyable flying experience. The AirAsia brand is well-recognized, particularly in Malaysia, Thailand and Singapore and was awarded SuperBrand status in Malaysia by SuperBrands International. AirAsia's brand name, image, values and low fare, no frills concept is marketed uniformly in all the markets where AirAsia operates. AirAsia's image has been enhanced by co-branding and partnerships with leading companies such as DBS Bank Limited ("DBS") as well as Malaysian celebrities. In addition, AirAsia often receives coverage by local and international media, including the Financial Times, the New York Times, the Wall Street Journal, the Economist and Fortune.

Proven Management Team

Most of the Company's current senior management team has been together since the Company commenced operations as a low-cost carrier in January 2002. The senior management team and Board of Directors have extensive experience in business management and have demonstrated their capabilities by turning around a loss-making, full-service airline into a profitable and respected regional low-cost carrier within a period of 18 months, during an extraordinarily difficult period for the airline services industry. As a testament to the management's success in expanding the airline, AirAsia was named the "Asia Pacific Airline of the Year" in 2003 by the Center for Asia Pacific Aviation. In 2003, AirAsia's Group CEO Tony Fernandes received the International Herald Tribune award for the Visionaries & Leadership Series and was named "Malaysian CEO of the Year 2003" by American Express and Business Times. In January 2004, he was recognized at the Ernst & Young Entrepreneur of the Year Awards as the Emerging Entrepreneur of the Year — Malaysia 2003.

Distinctive Corporate Culture

The Group prides itself on building a strong, team-focused corporate culture. The Group's employees understand and subscribe to the Group's core strategy and actively focus on maintaining low costs and high productivity. AirAsia motivates its employees by awarding bonuses based on each employee's contribution to AirAsia's productivity, and expects to increase employee's loyalty through its ESOS which will be available to all employees. The Group's management encourages open communication, which creates a dynamic working environment, and meets with all of its employees on a quarterly basis to review AirAsia's results and generate new ways to lower costs and increase productivity. Employees of AirAsia understand that the success of AirAsia depends on maintaining the low-cost model with high productivity and frequently communicate directly with AirAsia's senior management and offer suggestions on how AirAsia can increase its efficiency or productivity. Management believes that the Group's corporate culture is as strong today with over 1,800 employees in Malaysia and Thailand as it was with 322 employees in June 2002.

In addition to the foregoing, AirAsia:

- inculcates enthusiasm and commitment among staff by sponsoring numerous social events and providing a vibrant and friendly working environment;
- strives to be honest and transparent in its interaction with third parties including guests, vendors and creditors, and believes that it has developed a reputation for integrity that enhances its ability to obtain low lease rates for its aircraft, engines and other equipment and services;
- fosters a non-discriminatory, meritocratic environment where employees are offered opportunities for advancement regardless of their education, gender, race, religion, nationality or age; and
- emphasizes maintaining a consistent quality of service throughout all of AirAsia's operations by bringing together to work on a regular basis employees based in different locations.

Initial Public Offering Enhances AirAsia's Financial Strength

As at June 30, 2004, AirAsia's cash and cash equivalents stood at RM58.6 million. The Initial Public Offering is intended to further strengthen AirAsia's financial position without compromising AirAsia's focus on low costs and high productivity. AirAsia believes that it has the necessary resources to invest in regional growth opportunities. AirAsia's increased financial strength is also expected to place the Group in a better position to address challenges from competition, pursue its growth strategy and withstand business fluctuations.

Strategy

AirAsia's goal is to establish itself as a leading low-cost carrier in Asia by offering guests a safe, reliable and enjoyable flying experience at an affordable price. The principal components of AirAsia's strategy are as follows:

Stimulate Demand by Offering Low Fares

AirAsia's goal is to tap into Southeast Asia's growing population and geographic conditions and attract a broad range of guests, from those who have never flown to fare-conscious leisure and business travelers who may otherwise use alternative modes of transportation to destinations that were either under-served or not served by other airlines. AirAsia believes that the Group's success in attracting guests and building customer loyalty will be determined primarily by its ability to consistently offer low fares. Consequently, the Group intends to continue to offer fares that are on average substantially lower than the published fares of its full-service competitors.

Expand Within Asia

The Group intends to use its hubs as platforms to operate high-volume, short-haul routes to cities within a three-and-a-half hour flight time. The Group focuses on routes that are under-served or not served by other airlines. For example, in April 2004, AirAsia commenced flights between KLIA and Bandung, Indonesia, a route that has never been served by any international scheduled service carrier. In Malaysia, routes such as Kuala Lumpur to Sandakan and Kuala Lumpur to Tawau are not served by other airlines. The Group intends to launch flights to new destinations within Malaysia, Thailand, Indonesia and other countries in Southeast Asia and China by June 2005. AirAsia also intends to develop Kota Kinabalu Airport, as well as other airports in Malaysia, into hubs.

The Group also intends to apply its existing low-cost carrier model employed in Malaysia and Thailand to offer domestic and international air travel services in other Asian markets, such as Indonesia, by identifying suitable local partners and forming joint ventures. See "— AirAsia's Operations — Route Network — Future Plans". Thai AirAsia, which became an indirect associated company of the Company effective July 1, 2004, was established as a joint venture with partner Shin Corporation by replicating AirAsia's business model. Thai AirAsia commenced operations in Thailand in February 2004 and currently flies to seven domestic destinations, three international destinations and intends to commence its Bangkok to Kota Kinabalu route on October 21, 2004.

Increase Flight Frequencies

The Group intends to increase flight frequencies in its established markets as well as markets with expected high growth potential. AirAsia believes that increasing flight frequencies is important to guests who choose airlines based on low fares and scheduling convenience. In Malaysia, AirAsia has consistently increased frequencies to East Malaysia destinations such as Kuching and Kota Kinabalu. Since February 2004, Thai AirAsia has increased frequencies on its routes with high demand such as Bangkok to Phuket, Hat Yai and Singapore.

Continue to Minimize Operating Costs

AirAsia is able to provide low fares on a profitable basis by keeping operating costs low. This strategy does not necessarily entail selecting the lowest-cost supply alternative. Instead, AirAsia seeks sustainable efficiency improvements and cost savings through the following means:

- The Group encourages guests to make flight reservations through the Internet. Sales growth through Internet bookings can be more easily accommodated without incurring significant additional costs. AirAsia intends to make Internet bookings more accessible by launching an online debit card payment option by the end of 2004, in addition to the existing online credit card payment option;
- Aircraft maintenance services, ground handling and ground support services at airports in Indonesia, Macau and Singapore are provided by third parties through contracts procured through a competitive bidding process or on a negotiated basis; and
- The Group intends to strictly adhere to its low-cost carrier model by not offering any frills such as complimentary in-flight meals, in-flight entertainment, loyalty programs, lounges or multiple classes of service, regardless of whether its low-cost carrier competitors deviate from this model. AirAsia also intends to leverage its economies of scale to reduce its per unit cost and negotiate better terms with its suppliers and the airports at which it operates.

Invest in and Enhance AirAsia's Brand

AirAsia believes that its ability to generate publicity as well as its marketing and public relations activities have been successful in establishing a high level of brand awareness. AirAsia intends to continue to develop the AirAsia brand in the region, particularly in Malaysia, Thailand, Indonesia and Singapore as well as the new markets it intends to serve such as China. The strategy includes developing AirAsia as a preferred airline on the basis of low fares and high quality service. AirAsia also organizes and participates in events and promotions with celebrities to create excitement and enhance the brand image. In addition, the Group's low promotional fares (such as Rp. 99,999 or Baht 9 or RM0.99) and frequent promotions continue to stimulate customer interest in the Group. AirAsia will continue to refine its branding strategy to increase its customer base while entering new markets.

Continued Focus on Customer Service

The Group emphasizes high-quality, friendly and personal service, despite its low fares and low-cost carrier model. All employees are selected, trained and encouraged to provide services consistent with the Group's goals. The Group is committed to improving the quality of its services through initiatives to speed-up reservations and check-in, improve baggage handling services and provide rapid and effective responses to guest feedback. The Group intends to continue to consider ways to make its guests' experience more enjoyable and convenient.

Optimize Revenue and Develop New Revenue Streams

The Group uses a revenue management system to optimize revenue from passenger seat sales. Through this revenue management system, AirAsia constantly monitors and adjusts its fares based on, among other factors, the date of the flight and the forecasted and actual demand for the flight. As a result, the Group is able to optimize its revenue from passenger seat sales while still offering fares that are on average lower than its competitors on the same routes.

AirAsia intends to expand its ancillary revenue base and capitalize on its strong, dynamic brand by increasing the revenue it derives from other sources, especially freight services and charter services. For example, in June 2004, the Company entered into a contract with cargo counts GmbH ("Cargo Counts") pursuant to which AirAsia will provide unutilized aircraft cargo space to Cargo Counts, which will undertake cargo management for AirAsia. In addition, AirAsia intends to develop revenue streams such as Snack Attack, "Get a Room", "Go Holiday", "GoCorporate", travel insurance, car rental, and offer advertising on its aircraft as described in "— AirAsia's Operations — Ancillary Revenues".

AirAsia's Operations

Scheduled Passenger Services

AirAsia provides scheduled air travel services aimed generally at cost conscious business and leisure air travel passengers who are willing to forego complimentary meals, frequent flyer mile programs and airport lounges in exchange for fares that are typically lower than those offered by traditional full-service airlines. As at June 30, 2004, AirAsia had carried approximately 4.7 million guests since commencing operations as a low-cost carrier in January 2002.

AirAsia commenced operations of international routes in December 2003. For the six months ended June 30, 2004, AirAsia flew approximately 1.5 million guests, 90.8% of which were guests on routes within Malaysia, and 9.2% of which were guests on international routes to or from KLIA or Senai.

The following table presents AirAsia's operating information for its scheduled flights to and from KLIA and Senai for the periods indicated.

Operating Data (unaudited):

	For the year ended March 31,		For the 15 months ended June 30,	For the year ended June 30,	
	2000	2001	2002(1)	2003	2004
Passengers carried	271,118	290,687	610,738	1,481,097	2,838,822
RPK (millions)(2)	339	363	672	1,539	2,771
ASK (millions)(3)	547	586	1,018	2,086	3,592
Passenger load factor (%)(4)	62	62	66	74	77
Average fares (RM)	207	203	183	147	131
Number of aircraft at year end	2	2	3	7	13
Average number of aircraft	2	2	2.5	5.5	9.5
Number of sectors flown	3,346	3,346	6,521	14,461	25,106
Aircraft utilization (block hours per day)(5)	9.2	10.1	11.2	12.5	12.8
Revenue per RPK(6)(7)					
(RM)	0.205	0.204	0.184	0.151	0.142
(U.S.$)	0.054	0.054	0.049	0.040	0.037
Revenue per ASK(7)(8)					
(RM)	0.127	0.126	0.122	0.111	0.109
(U.S.$)	0.033	0.033	0.032	0.029	0.029
Cost per ASK(9)					
(RM)	0.189	0.160	0.128	0.109	0.094
(U.S.$)	0.050	0.042	0.034	0.029	0.025
Average stage length (kilometer)(10)	1,238	1,327	1,128	975	967

Notes:

(1) In 2002, the Company changed its financial year-end from March 31 to June 30 to coincide with the financial year-end of Tune Air

(2) Represents revenue passenger kilometers, which is the number of paying passengers carried on scheduled flights multiplied by the number of kilometers those passengers were flown

(3) Represents available seat kilometers, which is the total number of seats available on scheduled flights multiplied by the number of kilometers those seats were flown

(4) Represents the number of passengers as a proportion to the number of seats available for passengers (148 seats available for AirAsia's Boeing 737-300 aircraft)

(5) Represents the average block hours per day per aircraft during the relevant financial year

(6) Calculated as the Company's total revenue divided by RPK

(7) Non-scheduled, chartered flight revenue (amounting to RM79.9 million for the year ended March 31, 2000, RM93.7 million for the year ended March 31, 2001, RM93.5 million for the 15 months ended June 30, 2002, RM97.8 million for the year ended June 30, 2003, and nil for the year ended June 30, 2004) was subtracted from the Company's total revenue for the purpose of this calculation

(8) Calculated as the Company's total revenue divided by ASK

(9) Calculated as total operating expenses (excluding finance costs and taxation) divided by ASK. Costs of sales relating to non-scheduled, chartered flight revenue (amounting to RM74.7 million for the year ended March 31, 2000, RM88.9 million for the year ended March 31 2001, RM89.0 million for the 15 months ended June 30, 2002, RM93.3 million for the year ended June 30, 2003, and nil for the year ended June 30, 2004) was subtracted from total operating expenses for the purpose of this calculation

(10) Represents the average number of kilometers flown per flight

For a description of Thai AirAsia's market and operating information with respect to its Thailand operations, see "— Thai AirAsia's Operations — Thai AirAsia's Market".

Passenger Load Factor

The Group's passenger volumes usually increase during the period from November to January as a result of the school holidays in Malaysia and festive holidays such as Hari Raya, Christmas and New Year. Although Thai AirAsia did not commence operations until February 2004, the Company believes the peak periods of demand in Thailand to be between November and January, as well as in April, due to increased leisure travel during those periods. (see "Management's Discussion and Analysis of Financial Condition and Results of Operation — Market Risk — Seasonality").

Charter and Contract Services

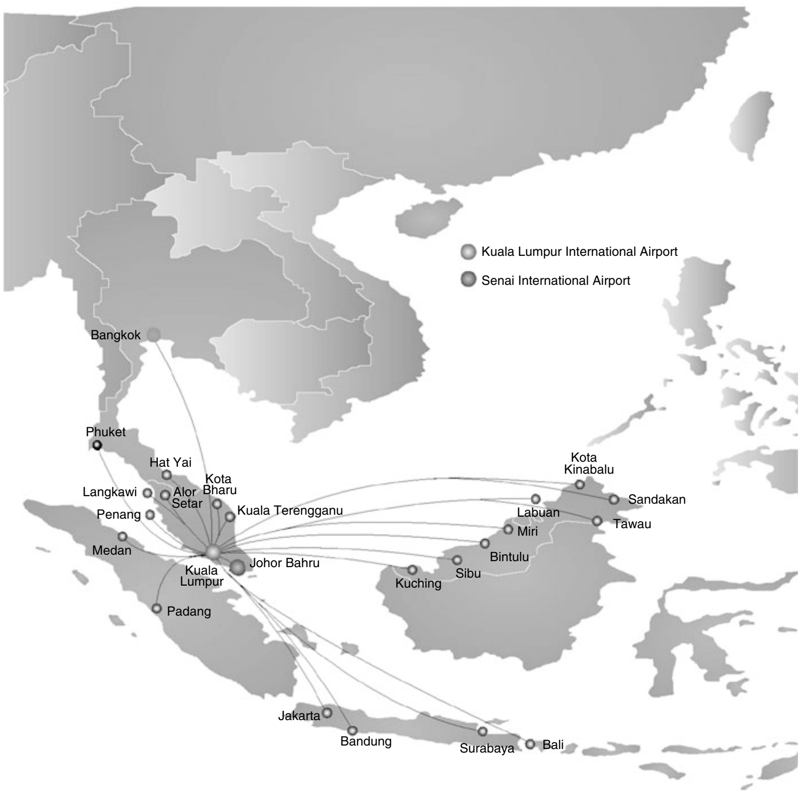
AirAsia provides charter services, which involve the lease of an aircraft to and from a particular destination. AirAsia had a two-year contract with Borneo Tours Sdn Bhd for the charter of an aircraft at least four times a month to Subic Bay, Philippines. The Borneo Tours charter contract expired in June 2004. AirAsia is currently providing charter services to Borneo Tours Sdn Bhd on an ad hoc basis. The Borneo Tours charter contract accounted for 1.1% of AirAsia's total revenue in the year ended June 30, 2004.

In 2001, the Company entered into the ATM contract with the Government to provide Angkatan Tentera Malaysia (the Malaysian armed forces) with a specified number of seats on specified routes. AirAsia is also obliged to provide meals on board the flights for which fare-paying passengers would otherwise have to pay. The ATM contract expired in August 2004. The Company is currently providing similar services to Angkatan Tentera Malaysia pursuant to an arrangement with the Government. An agreement is expected to be finalized by the end of 2004. The ATM contract accounted for 5.1% of AirAsia's total revenue in the year ended June 30, 2004.

In addition, AirAsia provides charter services on an ad hoc basis to various tour operators.

Route Network

As at the date of this Offering Circular, AirAsia operated a route network covering a total of 15 scheduled domestic destinations and eight scheduled international destinations. AirAsia intends to operate flights to Padang from KLIA on November 8, 2004 and reinstate flights to Miri from Senai on November 1, 2004. A route map showing AirAsia's existing point-to-point network as at the date of this Offering Circular is set forth below.



AirAsia's route network focuses on short-haul routes to airports in and around major population centers and travel destinations, typically operating on a radius of less than 1,500 to 2,000 kilometers and a flight duration of between one to three-and-a-half hours. AirAsia offers frequent point-to-point services, without connections, thereby freeing every flight to depart when it is ready, rather than being delayed when inbound flights carrying connecting passengers are late.

AirAsia currently operates out of two domestic hubs in Malaysia (KLIA in Kuala Lumpur and Senai in Johor Bahru). For a description of Thai AirAsia's hub in Thailand, see "— Thai AirAsia's Operations — Route Network — DMA". AirAsia currently operates and occupies the entire Terminal 2 of Kota Kinabalu Airport, and intends to develop this into a hub.

KLIA

In July 2002, AirAsia commenced operations from its primary hub at KLIA (having moved from the original hub at Sultan Abdul Aziz Shah Airport in Subang), one of the most modern and sophisticated airports in the Asia Pacific, and the main gateway into Malaysia. It is located approximately 50 kilometers from central Kuala Lumpur, and serves the most air traffic in Malaysia.

AirAsia currently operates 36 point-to-point domestic flights and 10 point-to-point international flights daily from KLIA (see "— Schedules and Aircraft Utilization — Schedules"). For the 15 months ended June 30, 2002, and the years ended June 30, 2003 and 2004, AirAsia recorded an average monthly passenger load factor of 66%, 74% and 78%, respectively, for flights departing from KLIA.

AirAsia has been in discussions with the Government to move its operations from its hub at KLIA back to Sultan Abdul Aziz Shah Airport at Subang. A decision from the Government on this issue could be announced as early as December 2004.

Senai

In December 2003, AirAsia began operations from its second hub at Senai. Located in Johor Bahru, the third largest city in Malaysia, Senai serves as AirAsia's southern gateway by providing more affordable links to East Malaysia, Singapore, Thailand, Indonesia and potentially the rest of Southeast Asia. AirAsia is currently the only airline with a hub at Senai.

AirAsia currently operates eight point-to-point domestic flights and two point-to-point international flights daily from Senai. For the seven months ended June 30, 2004, AirAsia recorded an average monthly passenger load factor of 69% for flights departing from Senai.

Future Plans

On August 30, 2004, AAIL entered into two conditional sale and purchase agreements to acquire a 49% aggregate shareholding interest in PT AWAir for total consideration of U.S.$2.00. PT AWAir is an Indonesian company which has an Indonesian AOC and operated as a full-service carrier before suspending operations in March 2002. Completion of the transaction is subject to various conditions including approval by various Indonesian regulatory authorities and further due diligence by AAIL. Assuming the transaction is completed, AirAsia intends to adopt a low-cost carrier model and operate from a hub at Soekarno-Hatta International Airport in Jakarta. By as early as December 2004, PT AWAir could, however, recommence operations prior to completion of the transaction. On October 22, 2004, the Company entered into an agreement to lease one Boeing 737-300 aircraft to PT AWAir. The aircraft is expected to be delivered to PT AWAir in December 2004. See "Related Party Transactions — Related Party Transactions and Conflicts of Interest".

On September 22, 2004, PT AWAir obtained the approval of the Badan Kordinasi Penanaman Modal (Indonesia) for certain proposed changes in its equity and human resource structures. The approval is one of the stated conditions for the completion of the transaction.

Traffic Rights

An airline must obtain traffic rights to operate domestic and international passenger services (see "Regulation of the Airline Industry in Malaysia"). AirAsia has traffic rights to all the routes that it currently operates, as well as the routes for which it has commenced selling seats as at the date of this Offering Circular (see "— Route Network" and "— Schedules and Aircraft Utilization"). Traffic rights in any jurisdiction granted to airlines may be withdrawn by the relevant ministry of transportation. Since AirAsia commenced operations in 1996, none of AirAsia's traffic rights have been withdrawn.

Schedules and Aircraft Utilization

Schedules

AirAsia currently operates a total of 322 flights per week from KLIA to 14 domestic destinations and eight international destinations. A summary of AirAsia's current flight schedule and flight schedule for routes which it has commenced selling seats as at the date of this Offering Circular operating from KLIA is presented below.

	Current flight schedule		Flight schedule for routes for which sale of seats has commenced	
Route	Date service commenced	Number of flights per week	Expected date of commencement	Expected number of flights per week
Domestic:				
Alor Star	March 1, 2003	14	—	—
Bintulu	August 30, 2004	7	—	—
Johor Bahru	October 22, 2003	14	—	—
Kota Bharu	January 15, 2002	17	October 31, 2004	21
Kota Kinabalu	January 15, 2002	42	—	—
Kuala Terengganu	November 8, 2002	18	October 31, 2004	14
Kuching	January 15, 2002	49	—	—
Labuan	January 15, 2002	7	—	—
Langkawi	January 15, 2002	14	October 31, 2004	21
Miri	July 1, 2003	21	—	—
Penang	January 15, 2002	14	October 31, 2004	21
Sandakan	March 27, 2003	7	—	—
Sibu	April 1, 2003	14	—	—
Tawau	September 5, 2002	14	—	—
International:				
Bandung	April 12, 2004	7	—	—
Bangkok	February 9, 2004	14	November 1, 2004	21
Denpasar	August 5, 2004	7	November 1, 2004	14
Hat Yai	August 5, 2004	7	—	—
Jakarta	July 1, 2004	14	November 1, 2004	21
Medan	August 27, 2004	7	—	—
Phuket	December 8, 2003	7	—	—
Surabaya	April 15, 2004	7	November 8, 2004	14
Padang	—	—	November 8, 2004	4
Total		322		

AirAsia currently operates a total of 63 flights per week from Senai to four domestic destinations and two international destinations. A summary of AirAsia's current flight schedule and flight schedule for routes for which it has commenced selling seats as at the date of this Offering Circular operating from Senai is presented below.

	Current flight schedule		Flight schedule for routes for which sale of seats has commenced	
Route	**Date service commenced**	**Number of flights per week**	**Expected date of commencement**	**Expected number of flights per week**
Domestic:				
Kota Bharu	—	—	October 31, 2004	7
Kota Kinabalu	December 3, 2003	14	October 31, 2004	7
Kuala Lumpur	October 22, 2003	14	—	—
Kuching	December 3, 2003	14	October 31, 2004	7
Penang	December 3, 2003	7	October 31, 2004	14
Miri	—	—	November 1, 2004	7
International:				
Bangkok	February 2, 2004	7	—	—
Jakarta	April 10, 2004	7	—	—
Total		63		

For a description of AirAsia's scheduled charter services, see "— AirAsia's Operations — Charter and Contract Services". For a description of Thai AirAsia's flight schedule in respect of its Thailand operations, see "— Thai AirAsia's Operations — Schedules and Aircraft Utilization — Scheduled Flights".

Aircraft Utilization

AirAsia plans its routes and operations for an average aircraft utilization of 12 to 13 block hours per day, as compared to the eight block hours per day utilization typical of full-service airlines. The increased aircraft utilization is achieved through a longer working day by commencing daily operations at 7:00 am, and shorter turnaround times of approximately 25 minutes, compared to the approximately 45- to 120-minute turnaround times typical of full-service airlines. As a result, each of AirAsia's aircraft is able to make on average five additional round trips per aircraft per week using the same crew resources, than it would be had its turnaround times been 60 minutes. In 2003, Boeing recognized AirAsia as a leader in terms of having one of the best utilization rates and dispatch reliability among airlines that fly the Boeing 737-300 aircraft. This recognition is a measure of AirAsia's success in operating more flights with each of its aircraft and its on-time performance for departures.

Pricing and Revenue Management

AirAsia has a multiple fare structure comprising 12 tiers of fares per route. This pricing structure offers guests savings depending on how far in advance a particular booking is made and the level of demand for the seats. All of AirAsia's fares are priced based on one-way travel. Seats must be purchased at the time of reservation and are non-refundable, but the time of travel or the person traveling can be changed up to 48 hours prior to departure subject to an administration fee.

AirAsia's revenue management system is managed with software provided by Navitaire's OpenSkies, an inventory and sales system which is used by most of the leading low-cost carriers including Ryanair, Virgin Blue, WestJet and JetBlue. The system facilitates pricing adjustments to be made on the basis of the lowest price consistent with demand and profitable operations. The highest fare class will be sold close to the day of travel, when time sensitivity outweighs price sensitivity. Such seats would be sold at approximately 80% of the published fares offered by full-service airlines. Revenues from these "last minute" fares help maintain AirAsia's revenue from passenger seat sales.

While AirAsia seeks to maximize its revenue, its low-cost structure enables it to offer fares that are on average lower than its competitors' on the same routes. Moreover, primarily during the launch of new routes or during off-peak seasons, AirAsia periodically offers promotional fares that are more discounted than its already low fares (see "— Advertising and Promotion").

Distribution and Sales

Internet Bookings and the Nationwide Call Center

AirAsia's website, www.airasia.com, was launched in May 2002. To encourage Internet reservations, AirAsia's lowest fares are available only through its website. Use of the Internet to make flight reservations has increased from approximately 5% of AirAsia's flight reservations made when the website was launched in May 2002, to approximately 50% of flight reservations in August 2004. This figure is expected to increase to approximately 60% for the year ending June 30, 2005. Online bookings lower AirAsia's costs by reducing operating costs (see "Risk Factors — Risks Relating to the Group — AirAsia may not be successful in implementing its growth strategy"). Consequently, the Internet is the lowest-cost distribution channel for AirAsia.

AirAsia set up the Nationwide Call Center to manage passenger seat sales in lieu of travel agents. By dealing directly with the Nationwide Call Center, guests can avoid travel agents' commissions. However, AirAsia imposes a nominal surcharge for each booking made through the Nationwide Call Center. The Nationwide Call Center commenced operations in March 2002, resulting in AirAsia becoming the first airline in Malaysia to enable its guests to pay for their seat purchases by credit card over the telephone. Through its partnership with Alliance Bank Malaysia Berhad ("Alliance Bank"), AirAsia's guests can now settle payment of their call center bookings by cash at any of Alliance Bank's branches throughout Malaysia. The Nationwide Call Center received an average of 10,000 calls per day after its launch, which decreased to an average of approximately 7,000 calls per day for the year ended June 30, 2004, due to the increasing popularity of Internet bookings despite the increase in the number of flights. The Nationwide Call Center operates from 8:00 am to 9:00 pm, seven days a week.

Travel Agents and Sales Offices

AirAsia currently maintains a network of nine "preferred" travel agents, 532 "sky agents", 16 sales stations and eight sales offices located throughout Malaysia. AirAsia also has 96 "sky agents" in Indonesia, 23 in India and 20 in Hong Kong, five sales stations in Indonesia and one sales station in Macau. AirAsia's "preferred" travel agents are travel agents who have registered with AirAsia and maintain a prepaid account with it from which bookings made by their guests are debited. "Preferred" travel agents enjoy special mention on AirAsia's website and are given access to AirAsia's call center booking engine which uses the FlightSpeed program by Navitaire ("FlightSpeed") (see "— Information Technology"). "Sky agents" are travel agents who have registered online with AirAsia but do not maintain a prepaid account with AirAsia. Therefore they are only able to make bookings online by paying for seats on behalf of their guests with their own credit card, or with their guest's credit card. "Sky agents" do not have access to FlightSpeed. AirAsia does not pay commission to either its "sky agents" or "preferred" travel agents, but they are allowed to charge a service fee, on condition that such service fee is openly disclosed to the guest. The services that travel agents provide are particularly useful for travelers who do not have Internet access and/or credit cards, especially in rural remote areas of Malaysia.

AirAsia operates sales stations in airports, as well as stand-alone sales offices throughout Malaysia, allowing guests to walk in to make reservations and settle payments.

Mobile Phone Bookings

SMS Bookings

In August 2003, AirAsia introduced the world's first airline booking by SMS from a guest's mobile phone at a fixed rate of RM0.30 per SMS. AirAsia's SMS booking was developed through collaboration with Maxis Mobile Sdn Berhad ("Maxis"), one of Malaysia's main mobile phone service providers. SMS booking is currently only available to Maxis subscribers. AirAsia intends to expand coverage through collaboration with other telecommunications providers such as Celcom (Malaysia) Berhad by December 31, 2004.

Booking Using Wireless Application Protocol Technology

Bookings by mobile phone using WAP technology are expected to be made available in Malaysia by the end of 2004, through AirAsia's collaboration with IMM Worldwide Sdn Bhd. All mobile phone subscribers will be able to access the Internet and make reservations and payment through their mobile phones and would be charged based on the volume (in kilobytes) downloaded by the subscriber through the WAP site.

Payment Channels

Guests booking through the Nationwide Call Center may pay by credit card or cash. Online bookings are currently only payable by credit card, but payment by direct debit is expected to be available by the end of 2004, pursuant to the agreement that AirAsia entered into with Malayan Banking Berhad in March 2002. In May 2004, AirAsia entered into a distribution agreement with Singapore Post, Singapore's leading provider of postal services, enabling guests to make reservations and cash payments through Singapore Post's post offices. In December 2003, AirAsia formed a strategic partnership with Pos Malaysia Berhad, Malaysia's national postal service, enabling guests to make reservations through the Nationwide Call Center and make cash payments at any of Pos Malaysia's extensive infrastructure of over 600 branches nationwide. Guests may also settle payment of their Nationwide Call Center bookings by cash at any of Alliance Bank's branches throughout Malaysia. Similarly, guests in Indonesia may settle their payments by cash over the counter at any of Bank Tabungan Negara's branches throughout Indonesia.

Ticketless Services

AirAsia's ticketless service was launched in May 2002. AirAsia believes that it is Asia's first airline to go completely ticketless. All travel with AirAsia is now ticketless, thereby eliminating costs associated with printing, mailing and modifying tickets, as well as re-issuing lost or stolen tickets.

For a description of Thai AirAsia's distribution and sales in respect of its Thailand operations, see "— Thai AirAsia's Operations — Distribution and Sales".

Ancillary Revenues

Freight

AirAsia currently offers limited freight service on its scheduled flights, including courier and mail services. As AirAsia's core business involves providing passenger air travel services, freight services are only provided if additional space is available in the aircraft. In June 2004, AirAsia entered into a three-year contract with Cargo Counts pursuant to which AirAsia will provide unutilized aircraft cargo space to Cargo Counts, which will undertake cargo management for AirAsia. AirAsia and Cargo Counts will share revenues from handling Cargo Counts' cargo. AirAsia's freight services are expected to generate more revenue with the expansion of AirAsia's operations.

In-flight Services

In October 2003, AirAsia formed a joint venture with SkyHigh Culinary Services Sdn Bhd to establish Crunchtime, the in-flight services division of AirAsia. AirAsia has a majority interest in Crunchtime. Crunchtime provides the food, beverages and duty free merchandise that are sold in-flight to AirAsia's passengers. It also oversees AirAsia's souvenir sales. Most of the food and beverage sold by Crunchtime is under its own brand, SnackAttack. Crunchtime intends to expand its operations in airports where AirAsia operates and will seek to gain exclusive and/or more advantageous concessions, particularly in the airports where AirAsia contributes more than 50% of the traffic of the airport, such as in Senai. Crunchtime aims to sell primarily SnackAttack food and beverages in these concessions.

Online Services

These services, which were launched by the Company in September 2003, are expected to be assumed by the Company's wholly owned subsidiary, AirAsia Go Holiday, by the end of 2004.

Subsequent to the launch of AirAsia's online services, the Company was advised by the Ministry of Tourism Malaysia (then Ministry of Culture, Arts and Tourism Malaysia) that the services would need to be licensed under the Tourism Industry Act, 1992. The Company's application for a license was unsuccessful, as the Ministry requires the services to be offered through an entity distinct from the Company. On September 10, 2004, a license was approved for AirAsia Go Holiday to undertake tour operating (inbound and outbound) and travel agency (ticketing) businesses (see "Regulation of the Airline Industry in Malaysia — Tour Operating Business License"). In order to comply with the requirements of the Tourism Industry Act, 1992 and the Ministry's policy, the online services will be assumed by AirAsia Go Holiday.

"Go Holiday"

"Go Holiday" is an online booking system, offering two types of holiday packages that includes return airfares and hotel accommodation to AirAsia's guests. The first is a "do-it-yourself" package, which allows guests to customize their holidays according to their preferences. The second is a theme package of the guest's choice. The most popular packages are spa retreats and golf packages.

AirAsia derives revenue from "Go Holiday" by incorporating a service fee into the hotel rates. The Company believes that "Go Holiday" has potential to contribute substantially to AirAsia's ancillary revenue, especially during non-peak seasons.

"Get a Room"

"Get a Room" is another online booking system, which allows AirAsia's guests to book hotel rooms. It features real-time confirmation, allowing bookings to be confirmed instantly.

AirAsia derives revenue from "Get a Room" by incorporating a service fee into the hotel rates. AirAsia regularly seeks to include more hotel partners.

Other Online Services

AirAsia is exploring extending its online services to include car rentals.

AirAsia Credit Card

In November 2003, Singapore's DBS entered into an agreement with AirAsia, pursuant to which DBS agreed to issue debit cards, credit cards or charge cards bearing AirAsia's logo in the Group's destinations where DBS is licensed to issue credit cards under its name, such as Singapore, Thailand and Indonesia. In April 2004, the AirAsia MasterCard Credit Card was launched in Singapore, offering holders of the credit card "AirAsia$" rebates of up to 25% of the dollar value spent by shopping or dining at more than 100 participating outlets in Singapore, and bonus "AirAsia$" rebates for every S$10 spent on the AirAsia credit card. The "AirAsia$" rebates are offered at DBS' sole expense and therefore at no cost to AirAsia and can be redeemed for AirAsia flights or may be used to instantly offset the credit card holder's purchases at these participating outlets. In addition, DBS' local partners in Thailand and Indonesia are expected to launch the AirAsia credit card in Thailand and Indonesia by the end of 2004 and early 2005, respectively. AirAsia credit cards were launched in Malaysia in August 2004 by DBS through RHB Bank Berhad.

GoCorporate

In May 2004, AirAsia launched "GoCorporate", which offers services to corporations that purchase more than 500 point-to-point sectors a year. "GoCorporate" offers corporations cost savings (compared to fares charged by full-service carriers), flexibility and convenience. Corporations that register for GoCorporate services are given a personal website and a corporate account identifier. They have the option of either purchasing normal fares which are subject to the normal terms and conditions, or fully flexible fares which allow changes up to six hours before the scheduled flight for a small premium. In addition, GoCorporate provides easy online booking tools that enable corporations to track and manage their employees' travel online and gain quick access to comprehensive reports of their employees' traveling details.

AirAsia Travel Insurance

AirAsia is currently working with American Home Assurance Company (Malaysia) and other affiliates of the American International Group, Inc. to offer air travel insurance coverage to AirAsia's guests. Subject to regulatory approvals AirAsia intends to offer travel insurance separately to allow guests to purchase insurance without having to book flights or accommodation through AirAsia.

Subject to regulatory approvals, AirAsia intends to integrate travel insurance offers into its online flight booking process, which will allow all guests booking a flight to automatically receive a travel insurance quote and an option to purchase an insurance policy as part of its reservation process.

Aircraft Advertising

In August 2002, AirAsia entered into a three-year contract with TIME dotCom Berhad ("Time") to provide advertising on AirAsia's aircraft. Through this agreement, one of AirAsia's aircraft effectively became a "flying billboard", bearing Time's brand and colors on the aircraft's exterior. Time has agreed to pay AirAsia an aggregate amount of approximately RM800,000 during the three-year contract.

Advertising and Promotions

AirAsia's logo and tagline, "Now Everyone Can Fly", underscores the Company's objective to be a people's airline. By providing low fares that are on average substantially less than published fares offered by full-service airlines, AirAsia stimulates demand and creates new markets.

AirAsia has established its brand name through a combination of tactical advertising, effective public relations and promotions. It allocates up to 3% of its revenue for its marketing campaigns and activities every year. To ensure effective utilization of its marketing budget, AirAsia is selective in determining the advertising medium and usually uses print, supported by radio and outdoor advertising. Television advertising is used occasionally. AirAsia also participates in community and charity projects, and supports the music industry by assisting in promoting local and international artists.

Service

AirAsia is committed to providing high quality customer service by providing its guests with a safe, low-cost, valuable, reliable and friendly service. In line with its no-frills, low-cost business model, AirAsia eliminated services that it believes its guests view as non-essential, including complimentary meals, frequent flyer programs and airport lounges. As an alternative, a number of value-added service enhancements are available on a "user pays" basis. Such service enhancements include sales of in-flight food, beverages and merchandise (see "— Ancillary Revenues — In-flight Services").

AirAsia continuously monitors its on-time performance, which it displays on a weekly and monthly basis on its website. AirAsia's average on-time performance (which measures the proportion of flights departing within 15 minutes of the scheduled departure time) for the year ended June 30, 2004, was approximately 86%.

AirAsia's ground support service has a system in place to inform guests of delayed or cancelled flights by SMS or telephone. Guests that cannot be contacted through these means are notified at the check-in counter. AirAsia intends to implement an automated electronic-notification system, linked to its reservations booking system by the end of 2004 (see "— Information Technology").

To provide the highest quality customer service, AirAsia strives to employ staff who are outgoing, friendly and professional. Staff are selected through a rigorous recruitment process, which is followed by extensive and ongoing training and performance management activities. AirAsia specifically budgets for training for each customer service personnel every year to ensure staff are fully prepared to assist passengers effectively and efficiently.

Fleet

AirAsia operates a single type of aircraft, currently the Boeing 737-300, because it is efficient and cost effective. The Boeing 737-300 aircraft has a proven track record of reliability in short-haul, high frequency operations. By building a uniform fleet, costs for spare parts and training are reduced, allowing AirAsia to keep fares low. Having a homogeneous fleet also means that any aircraft may be used for any route, thereby simplifying and increasing the flexibility of AirAsia's flight scheduling arrangements.

Each Boeing 737-300 aircraft is configured to seat a single class in order to maximize seating capacity. AirAsia's aircraft have a capacity to seat 148 passengers (compared to the passenger seat capacity of 132 for typical Boeing 737-300 aircraft with a two-class configuration), two flight crew and three cabin crew.

As at the date of this Offering Circular, AirAsia leased 18 aircraft and owned six aircraft. The average age of AirAsia's fleet as at June 30, 2004 was 16 years. AirAsia's fleet consists of refurbished 737-300 aircraft, in line with AirAsia's strategy of minimizing its costs. Since the beginning of operations as a low-cost carrier in January 2002, AirAsia has been able to enter into favorable leases due to a large increase in supply of used 737-300's in the market. AirAsia uses one of its leased aircraft as a spare aircraft (see "— Spare Aircraft"). AirAsia's fleet is expected to expand to 36 aircraft by June 2005, two of which are expected to be spare aircraft while 11 of which are expected to be leased to Thai AirAsia. As at the date of this Offering Circular, 15 aircraft are operated from KLIA and two aircraft are operated from Senai. Five of AirAsia's aircraft have been leased to Thai AirAsia (See "— Thai AirAsia's Operations — Fleet"), while two aircraft are expected to be in operation (one in Malaysia and one in Thailand) by the beginning of November 2004.

With respect to its leased aircraft, AirAsia took delivery of two of its aircraft in 2002, seven of its aircraft in 2003, and a further nine aircraft as at the date of this Offering Circular. The leases typically have an average term of eight years, some of which provide AirAsia with an option to renew until the next "D" check, as well as an option to purchase the aircraft. Events of default under the lease agreements include a change of control of AirAsia, failure to make a payment pursuant to the lease, failure to maintain a maintenance reserve and inadequate insurance coverage.

In respect of its purchased aircraft, four aircraft were purchased from AFS Investments XLIII LLC in June 2003. An additional two aircraft have been purchased from the U.S. Bank National Association in February 2004, both of which were delivered in October 2004.

Future Plans

AirAsia continuously reviews the Group's fleet requirements and is currently considering the Proposed Acquisition. In connection with the Proposed Acquisition, AirAsia has been in discussions with its suppliers for the provision of new equipment and parts including engines and avionics. Although the Board of Directors of the Company has not accepted any current proposal from Airbus or Boeing, negotiations are at an advanced stage and an agreement may be reached as early as December 2004. In the event AirAsia acquires additional aircraft of a different type than the Boeing 737-300, AirAsia expects that such aircraft would be delivered over a period of several years, commencing as early as January 2006, and the Group's entire fleet would gradually shift to the different aircraft type with different engines. AirAsia expects that if it purchases new aircraft from Airbus or Boeing, such aircraft would have advantages over AirAsia's current fleet such as improved fuel efficiency, higher passenger capacity and lower maintenance costs. During the transition period in which the Group would operate a mixed fleet, AirAsia will incur transition costs, including higher costs associated with hiring and training pilots, cabin crew and engineers to operate and maintain a different type of aircraft. See "Risk Factors — Risks Relating to the Group — Any real or perceived problem with Boeing 737-300 aircraft and CFM56-3 engines, including their unavailability, or any decision to operate a new aircraft or engine type, could have a material adverse effect on the Group" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Factors Affecting AirAsia's Results of Operations — Low Operating Expenses".

The type of aircraft and engines AirAsia is currently considering acquiring is presented below:

Aircraft type	Number of seats	Engine type
Airbus A319	160	CFM 56-5/IAE-2500
Airbus A320	180	CFM 56-5/IAE-2500
Boeing 737-700	149	CFM 56-7
Boeing 737-700ES	157	CFM 56-7
Boeing 737-800	189	CFM 56-7

AirAsia plans to proceed with the Proposed Acquisition only if it believes that such a purchase would be likely to benefit its shareholders, taking into account, among other things, the economic benefits of any new aircraft type, the routes that could be flown with such aircraft and the Group's ability to secure the necessary approvals to fly such routes, the potential risks and operating difficulties of such aircraft type, whether AirAsia could maintain substantial unrestricted cash balances and whether it would be able to obtain debt or lease financing. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditure — Planned Capital Expenditure" and "Use of Proceeds".

Spare Aircraft

Spare aircraft are necessary to reduce the risk of flight delays and cancellations caused by aircraft-related issues, such as unscheduled maintenance. An aircraft undergoes approximately two to three weeks of maintenance each year. AirAsia currently has one spare aircraft which it has leased since June 2003.

When an aircraft falls behind schedule, it often remains behind schedule during the remainder of that day (see "Risk Factors — Risks Relating to the Group — The Group relies on a high daily aircraft utilization rate to optimize its revenue, making it especially vulnerable to delays"). Such a delay is most significant when the delay occurs in the morning. Accordingly, AirAsia's spare aircraft is grounded only in the morning and is available to be used for ad-hoc charters in the afternoon. AirAsia intends to lease another spare aircraft by June 2005. For its current size of operations, the Company believes that it has an adequate number of spare aircraft to meet its needs.

Safety and Security

AirAsia's commitment to safety and security is reflected in its system of maintenance of its aircraft, extensive training given to pilots, flight crew, cabin crew and employees and the strict policies and procedures in compliance with the local regulations, international standards and best practices regarding all areas of its business that are involved with the operation of the aircraft.

Safety

AirAsia's aircraft are equipped with advanced and highly accurate instrument landing systems ("ILS") that provide necessary lateral and vertical guidance to the pilot in navigating the aircraft for a precision approach. A precision approach is a descent procedure using a navigation facility aligned with a runway. The ILS in AirAsia's aircraft has a height call-out feature that further assists the pilot in navigating the aircraft's descent. In addition, AirAsia's aircraft are equipped with traffic alert and collision avoidance system ("TCAS") technology and enhanced ground proximity warning system ("EGPWS"). TCAS technology allows pilots to detect the presence of all other TCAS and transponder-equipped aircraft, as well as coordinate maneuvers between two opposing aircraft which are equipped with TCAS, thereby reducing the risk of mid-air collisions. EGPWS is a terrain awareness and alerting system which uses aircraft inputs including geographic position, altitude, airspeed and glide scope, together with internal terrain, obstacles and airport databases to predict a potential conflict between the aircraft flight path and terrain or an obstacle. In addition, EGPWS provides alerts for excessive glide scope deviation and incorrect landing configurations, and is able to provide flight path angle indications and altitude call-outs.

AirAsia has established processes to assist in the identification of potential safety issues. These include:

- a reliability program that tracks the reliability of the aircraft's system and components;
- monthly review of the results of the reliability program with DCA;
- technical crew and cabin safety emergency procedures training;
- safety awareness program for all AirAsia staff; and
- ramp safety awareness training.

AirAsia's has developed a quality assurance system to monitor all areas related to ground and flight operations as part of its wider quality management objectives. AirAsia's quality assurance teams oversee and monitor all aspects of AirAsia's aircraft operations to ensure that industry safety standards, including DCA's guidelines, are strictly adhered to. The DCA conducts safety audits on AirAsia twice every year.

Since it began operations in 1996, none of AirAsia's aircraft have been involved in any major accident involving personal injury to its guests or crew.

AirAsia intends to implement a flight data monitoring system ("FDM") to reduce accident and incident rates, while optimizing costs to remain competitive. FDM is a quality assurance process, which involves the analysis of flight data on a routine basis, with the aim of promoting the early detection of situations which require, or potentially require corrective action. AirAsia believes that the adoption of the FDM will strongly contribute to increased flight safety and operational efficiency as it enables AirAsia's engineers and management to track and evaluate flight operations trends, identify risk precursors, and take the appropriate preventive and/or remedial action where necessary.

Security

While the relevant airport operators are responsible for security screening of passengers and baggage at AirAsia's domestic and international destinations, AirAsia trains its staff to remain vigilant in identifying potential security breaches, as well as to handle unruly passengers. All potential employees undergo thorough screening of their background by Malaysia Airports Holdings Berhad prior to being hired.

AirAsia provides extensive training to ensure that its staff have appropriate skills to carry out their relevant duties as stipulated in the Company's DCA-approved employee manuals (see "— Training"). All crew and ground handling staff are required to undergo dangerous goods awareness training to be able to identify potentially dangerous goods and items that threaten safety of the flight (these include flammable liquids and containers that are likely to explode under pressure).

Following the terrorist attacks in the U.S. on September 11, 2001, the ICAO has implemented regulations and guidelines requiring airlines to adhere to certain security measures. These include:

- installation of reinforced doors and review of policies and procedures on cockpit visits and occupying of jump seats;
- the removal of checked-in luggage from the aircraft when the passenger fails to board the aircraft;
- review of items allowed as cabin luggage;
- enhanced holding baggage surveillance; and
- crew training on handling of disruptive passengers and passenger profiling.

AirAsia is in compliance with all of DCA's and ICAO's regulations. In addition, cockpits in all of AirAsia's aircraft have reinforced, bulletproof doors. See "Regulation of the Airline Industry in Malaysia".

Maintenance and Spare Parts

AirAsia retains major aircraft maintenance companies to ensure that safety standards are adhered to while achieving the lowest possible costs. AirAsia follows the maintenance program prescribed by Boeing. Engine maintenance of AirAsia's various aircraft currently fall within one of two engine maintenance programs — a "maintenance-by-the-hour" program and a "time and material" program. The "maintenance-by-the-hour" program obliges AirAsia to pay a fixed hourly rate to the contractor based on the number of flight hours of each aircraft. By basing the cost of engine maintenance on the number of flight hours rather than the level of maintenance required at any given time, budgeting is more predictable and simplified. The "time and material" program requires AirAsia to pay to the contractor a rate to be negotiated at the time of execution of each maintenance performed by the contractor. Two of AirAsia's engines are maintained by GE Engines Services Malaysia Sdn. Bhd. pursuant to a "time and material" contract, 32 of AirAsia's engines are maintained by ST Aero pursuant to a "maintenance-by-the-hour" contract and 16 of AirAsia's engines are maintained by GE Engine Services, Inc. pursuant to a "maintenance-by-the-hour" contract.

All heavy maintenance is performed by ST Aero and MAS pursuant to "time and material" contracts. In November 2002, the DCA granted approval to AirAsia to perform its own light maintenance. AirAsia currently employs 78 type-rated licensed engineers to perform the light maintenance on its aircraft. AirAsia's aircraft maintenance hangar, located at KLIA, was completed in December 2003 at a cost of RM2.1 million. As a result, AirAsia is less dependent on third party maintenance providers, which reduces costs as well as aircraft down-time. AirAsia's dedicated quality assurance team ensures that DCA's regulations are strictly adhered to, which in turn helps ensure that DCA's approval under which it performs its own line maintenance, will not be withdrawn.

In November 2002, AirAsia entered into a seven-year component management and support services agreement with Air Rotables Limited, United Kingdom, a wholly-owned subsidiary of ST Aero, for the repair of most of its aircraft components.

Ageing Aircraft Program

The average age of AirAsia's aircraft as at June 30, 2004 was 16 years. As such, AirAsia's aircraft need to undergo more vigorous maintenance than a new fleet. Boeing implemented an ageing aircraft program which involves an inspection and maintenance program to identify potential problems with ageing systems in aircraft to ensure the integrity of the aircraft structure. As an aircraft ages, the requirements for inspection, repairs and parts replacement increases, consequently increasing costs.

Spare Parts

AirAsia maintains an inventory of rotable and consumable spare parts, as well as two spare engines which it obtained from GE Capital Aviation in June 2003. As at June 30, 2004, AirAsia kept RM15.5 million (U.S.$4.1 million) worth of aircraft spares, and leased RM9.3 million (U.S.$2.4 million), worth of aircraft spare parts from Volvo Aero Leasing LLC pursuant to a five-year aircraft engine and aircraft frame parts leasing agreement which expires in June 2007. AirAsia leases high-turnover aircraft spares that have a risk of becoming obsolete and purchases high-turnover aircraft spares that it believes do not bear a high risk of becoming obsolete.

Fuel

Fuel is a major cost component for airlines. AirAsia's fuel costs for the 15 months ended June 30, 2002, and the years ended June 30, 2003 and 2004 was RM64.0 million, RM93.6 million and RM102.7 million, respectively, accounting for 29.2%, 29.3% and 30.6% of AirAsia's total cost of sales and operating expenses, respectively. AirAsia forecasts that its fuel costs will increase to approximately 43% of total cost of sales and operating expenses for the year ending June 30, 2005.

In Asia, fuel prices are benchmarked against the Singapore spot prices for jet kerosene. Jet kerosene prices, and therefore fuel prices, are extremely volatile and are subject to many global economic and geopolitical factors (see "Risk Factors — Risks Relating to the Group — The Group could be materially and adversely affected by the unavailability of sufficient quantities or cost of fuel"). AirAsia implements various fuel management strategies to manage the risk of rising fuel prices, including hedging. For the years ended June 30, 2003 and 2004, 100%, and 83%, respectively, of AirAsia's fuel purchases were hedged.

AirAsia purchases its fuel from Petronas in Peninsular Malaysia and certain stations in East Malaysia, Shell Timur Sdn Bhd from certain stations in East Malaysia, World Fuel Services (Singapore) Pte Ltd in Indonesia, PTT Public Company Limited and The Shell Company of Thailand Limited in Thailand, and from Nam Kwang Petroleum Chemicals Co., Ltd in Macau.

AirAsia has implemented the following fuel management strategies in order to reduce costs and minimize inherent risks:

- *Fuel hedging contracts* — Since December 2001, AirAsia has entered into contracts to minimize the impact of fuel price volatility. For the year ended June 30, 2004, AirAsia hedged approximately 83% of its fuel purchases. AirAsia has entered into jet fuel derivative contracts to hedge against increases in jet fuel prices for all of the Group's expected fuel requirements for the year ending June 30, 2005 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk — Fuel Price Risk"). AirAsia has not yet entered into any jet fuel derivative contracts for any of the Group's expected fuel requirements for any period after June 30, 2005. There is no assurance that AirAsia will be able to secure new jet fuel derivative contracts on commercially reasonable terms or at all;
- *Fuel policy* — AirAsia controls its fuel supply by uplifting as much fuel as possible (subject to clearance from air traffic control) within optimal limits and regulatory requirements, in destinations where fuel is least expensive, to facilitate the use of the least expensive fuel stock;
- *Payment upfront* — Upfront payment for all purchases gives AirAsia negotiating power to obtain better pricing; and
- *Fuel consumption policy* — AirAsia attempts to minimize fuel consumption by establishing clear guidelines covering all areas of flight operations so that aircraft fuel burn rates can be maintained at a functional minimum. This includes allowing the aircraft to reach optimum height within the shortest amount of time, as less fuel is consumed at optimum height, taking straight-line paths as much as possible, and decreasing the overall weight of the aircraft by eliminating "frills" like ovens in the aircraft's galleys and built-in steps.

Information Technology

AirAsia invests in information technology where its use directly lowers costs, enables scalable operations and improves efficiency. Its key operating software systems include OpenSkies by Navitaire for inventory and sales management, Microsoft's Axapta Financial Management ("Axapta"), the Geneva Optimum Airline Performance ("OAP") software for flight scheduling and crew rostering and as precise's

Engineering Software Solution ("ESS") for the management of aircraft maintenance engineering and logistics. AirAsia subscribes for Axapta, OAP and ESS on an annual basis so as not to commit to these software should they become obsolete, and not be burdened by a potentially large capital outlay.

OpenSkies software by Navitaire provides real time access to revenue information. This software, which operates through a single database, fully integrates bookings received through the Internet, the Nationwide Call Center, sales offices and by SMS messages. The software includes "SkyAgent", which allows travel agents to book flights online at lower costs, as well as FlightSpeed, the reservation system software used by the Nationwide Call Center. AirAsia experienced several system failures in July 2003, as a result of system overloads caused by voluminous traffic in AirAsia's website. In August 2003, Navitaire provided AirAsia with a server with a higher capacity and a back-up server in the event of failure of the primary server. In addition, AirAsia intends to set up a disaster recovery center by the end of October 2004 to handle server failures. See "Risk Factors — Risks Relating to the Group — The Group relies on automated systems and the Internet to operate its business and any failure of these systems may have a material adverse effect on the Group".

Axapta software provides accounting, financial reporting and analysis capabilities, thereby assisting in the improvement of the efficiency of AirAsia's financial operations and enabling strategic planning activities, the effective management of cash flow and regulatory compliance.

Geneva software provides the most up-to-date information from which to base decisions for sickness replacement, disruption of services and training requirements.

ESS software, provided and hosted by asprecise Pte Ltd (an affiliate of Temasek Capital Singapore), is a full-service solution designed to meet all airworthiness, reliability, records, inventory and purchasing requirements of the relevant aviation authorities (including DCA), as well as other financial and executive reports as may be required by AirAsia. The ESS software uses current and historical records and operational and maintenance activities of each aircraft to prepare maintenance planning and resources and inventory control modules, which are then used by AirAsia's engineers.

Airport Operations

Airport Handling Service

AirAsia provides its own ground handling and ground support services at all domestic airports. A limited number of established third parties provide these services to AirAsia at international destinations. AirAsia believes that providing its own ground handling and ground support services ensures that costs are kept low while productivity is high. Providing its own services also helps ensure that AirAsia can monitor and maintain its high customer service levels.

AirAsia's ground handling services include ramp, baggage and freight handling and aircraft push backs. The equipment used to perform these services, including tow tractors and trolleys, are owned by AirAsia.

The ground support services that AirAsia provides include check-in counters allocated to it, service desk and boarding services. AirAsia rents check-in counters, as well as departure gates or lounges at both its hubs, for an indefinite period of time. AirAsia currently has 18 check-in counters at KLIA and four at Senai. Other airport operations, including security screening of passengers and luggage, are the responsibility of the authorities at the airports.

Ground handling services and equipment and ground support services are provided by PT Mandala Buana Ekspresindo (Juanda Airport and Ngurah Rai Airport), PT Antariksa Mandari Sarana (Soekarno-Natta Airport Cengkareng), and PT Lahund Air Services (Husein Sastranegara Airport) pursuant to 12-month contracts ending July 31, 2005. AirAsia currently has between two and four check-in counters at each of the airports in Indonesia in which it operates. AirAsia has station representatives present to oversee the ground handling operations in its Indonesian destinations.

Since July 2004, ground handling services and equipment and ground support services at AirAsia's Thailand destinations are provided by Thai AirAsia, thereby reducing costs incurred (see "— Thai AirAsia's Operations — Airport Operations").

Airport Charges

As with other airlines, AirAsia is assessed airport charges including landing and parking fees, check-in counters charges, air navigation flight charges and security fees. AirAsia is also charged a standard rate for use of ground support service facilities such as check-in counters based on the total number of flights per annum.

In keeping with its low-cost model, AirAsia negotiated advantageous terms for these airport charges by delivering a consistently high volume of passengers. Whenever possible, AirAsia prefers to use less expensive airport facilities such as outdoor boarding steps.

Insurance

AirAsia has aviation and non-aviation insurance coverage in connection with its operations. It believes that its overall insurance coverage is consistent with industry practice and is maintained at adequate levels.

AirAsia carries passenger and third party liability insurance, as required by the terms of its lease agreements, and also insures its aircraft against loss and damage, including war and terrorist risks. It also carries non-aviation insurance which covers its assets, employer liability and accident and hospitalization insurance for its employees. It does not carry insurance covering business interruptions. AirAsia has not experienced any material interruption to its business and operations since it became a low-cost carrier.

Following the terrorist attacks of September 11, 2001, insurers reduced coverage for war and allied perils liability to third parties to U.S.$50 million, and imposed a surcharge of U.S.$1.25 per passenger. To offset the surcharge imposed by insurers, AirAsia charges a RM5 insurance surcharge to each of its passengers while Thai AirAsia charges a Baht 50 surcharge. In response to the cancellation of insurance coverage for third party liability resulting from, among others, terrorist attacks and war risks, the Government entered into an indemnity agreement with the Company, to undertake liabilities for damages caused to third parties as a result of, among others, terrorist attacks or acts of war against the Company's aircraft that may occur or arise within Malaysia's territorial limits (including airspace). This undertaking by the Government is currently limited to cover liabilities not otherwise insured, and in any event up to an aggregate of U.S.$450 million. The indemnity agreement, last renewed in July 2004, provides that the Government may, at its sole discretion, suspend its coverage at any time, effective within seven days after notice of such termination is given to the Company. The Government advised AirAsia that the indemnity will not be renewed beyond June 30, 2005. AirAsia intends to purchase additional insurance to address the non-renewal of the indemnity. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Cost of Sales and Operating Expenses — Cost of Sales".

Insurance rates are based on an evaluation of the insured's track record in terms of safety, volume and growth potential. As such, AirAsia has been able to reduce its insurance rates by 50% since Tune Air took over its operations in December 2001.

Competition

AirAsia faces competition from other scheduled airlines that service its routes. On some routes, there is also competition from other transport modes, such as ground and sea. The intensity of this competition varies from route to route and depends on a number of factors, including the strengths of competing airlines and other transport modes.

AirAsia's main competitor in Malaysia is MAS. MAS is a full-service carrier, offering multi-class scheduled services to a broad network of more than 100 domestic and international destinations, complimentary in-flight meals, a frequent flyer program and airport lounges. MAS offered "SuperSaver fares", which are 50% off domestic economy class fares, on almost all of its routes within Malaysia on three occasions between 2002 and 2004. MAS resumed its "SuperSaver fares" on a limited number of tickets in August 2004. AirAsia can be distinguished from other carriers in Malaysia as it offers low fares throughout the year, rather than only during promotional periods. In August 2004, MAS announced that it had no current intention of launching a low-cost carrier.

In addition, AirAsia faces competition from ground transportation on its routes from KLIA to Senai, Penang, and Alor Star, all of which take less than five hours by car. AirAsia currently runs two flights daily from KLIA to Senai, Alor Star and Penang.

AirAsia faces competition from several full-service airlines on its routes from KLIA to its Thailand destinations. Full-service airline competitors include THAI and MAS, as well as other full-service airlines exercising their fifth freedom rights. On its routes from Malaysia to Indonesia, AirAsia faces competition from Garuda as well as other privately-owned airlines such as Lion Air and Merpati Nusantara Airlines. However AirAsia is currently the only operator of flights between Bandung and KLIA. AirAsia believes that it has a competitive advantage over all these airlines based on its strict adherence to its low-cost business model which has enabled it to be profitable despite offering low fares.

For a description of competition in respect of Thai AirAsia's operations, see "— Thai AirAsia's Operations — Competition".

Intellectual Property

AirAsia has applied for the registration of the "AirAsia", "AirAsia.com", "GoHoliday", "Now Everyone Can Fly", "AirAsia GoCorporate" and "Snack Attack" trademarks in several countries, including India, China, Indonesia, Malaysia, Singapore, Thailand and Taiwan. The "AirAsia" trademark is registered in several countries, including Hong Kong, Brunei Darussalam, Cambodia and Singapore, while the "AirAsia.com" trademark is registered in Hong Kong, Brunei Darussalam, Cambodia and Singapore.

AirAsia has further applied for the registration of the "AirAsia GoInsure" in several countries including Malaysia, Indonesia, Singapore and Brunei Darussalam.

Property

Save as disclosed below, as at June 30, 2004, neither the Company nor any of its subsidiaries owned any land or building:

Owner of building	Postal address/ location of building(1)	Description/ existing use of building	Tenure/Date of expiry of lease(2)	Built up area	Approximate age of building	Audited net book value as at June 30, 2004
						(RM thousands)
AirAsia Berhad	Taxiway Charlie, Kuala Lumpur International Airport (part of PT 39 Bandar Lapangan Terbang Antarabangsa Sepang, Daerah Sepang, Selangor Darul Ehsan)	Aircraft maintenance hangar	See Note 2	Approximately 43 meters wide and 48 meters depth, together with an auxiliary building 5.45 meters wide and 21 meters in length	Approximately 9 months	2,035

Notes:

(1) On the fitness of occupation of the hangar, it is the subject of a year-to-year "Kelulusan Permit Bangunan Sementara" issued by the Majlis Daerah Sepang. The initial permit was for the period between January 21, 2003 to January 20, 2004. The permit has been renewed for another year

(2) The land area occupied is approximately 2,319.70 square meters. The land is owned by Malaysia Airports (Sepang) Sdn Bhd (the "MAB") and the Company has been granted a five year tenancy from October 1, 2003 to September 30, 2008 (the "Concession Period"). At this juncture, no formal tenancy agreement has been executed. However, a meeting was held between the Company and MAB on September 30, 2004 to formalize, among other things, their agreement on the Concession Period.

The Company has the right to construct a hangar on the land and the Company has received all approvals from relevant authorities and MAB for the construction of the hangar. In addition, the Company has complied with the necessary building regulations in relation to the construction of the hangar

Employees

Each of AirAsia and Thai AirAsia has made arrangements for the inter-company secondment of their cabin crew and pilots. As at June 30, 2004, AirAsia had 1,382 employees, consisting of pilots, cabin crew and administrative staff. AirAsia's ratio of employees per aircraft (calculated by dividing the number of employees by the number of aircraft) has decreased by 11.7% from 120 employees per aircraft as at March 31, 2001 to 106 employees per aircraft as at June 30, 2004. The following is a breakdown of AirAsia's employees as at June 30, 2004.

	Number of Employees
Flight operations	
Pilots and Co-pilots(1)	165
Cabin Crew(1)	242
Ground Operations(2)	208
Engineering	490
Marketing	10
Call center and reservation	91
Finance	28
Human Resource/Administration/Information Technology	16
Others(3)	132
Total	1,382

Notes:

(1) Includes AirAsia cabin crew and pilots seconded to Thai AirAsia

(2) Consists of guest handling personnel and ground handling personnel

(3) Includes Crunch Time's employees

As at June 30, 2004, the number of years in service of the employees of AirAsia ranged from less than one year to seven years. As at June 30, 2004, the Company had a total of 34 foreign employees, consisting mainly of pilots and co-pilots. The foreign employees' terms of engagement are similar to those of local employees. The expatriate pilots and co-pilots are employed on a contract basis for durations not exceeding three years.

AirAsia's employees are not unionized. There have never been any labor strikes or work stoppages. Management believes its relationship with AirAsia's employees is good.

AirAsia recognizes the need to ensure continuity in its management in order to maintain AirAsia's edge over its competitors. The Directors believe that the continued success of the Group depends, among other factors, on the support and dedication of its management personnel. The Group has put in place human resource strategies, which include competitive compensation, fit-for-purpose recruitment and a succession plan.

The loss of any key personnel of AirAsia could materially and adversely affect the Group. In view thereof, the Group has made efforts to motivate and retain its staff through performance-based incentives, and to enhance employees' skills and competencies by providing training.

To this end, AirAsia engages its employees continuously in conferences and training for them to acquire and enhance relevant skills and competencies (both functional and developmental) in line with its business objectives. On-the-job training is another significant approach of transferring knowledge from specialists to new or junior employees. The investment in human capital increases the competency of its existing employees. In addition, these development activities serve to groom the lower and middle management staff to progressively assume the responsibilities of senior management.

Employee Efficiencies and Costs

AirAsia's staff remuneration policy focuses on maximizing efficiency and productivity while keeping staff costs at the minimum functional level consistent with low-cost carrier industry standards. AirAsia offers employees at all levels a wide range of incentives including performance-based bonuses, share offers and the ESOS. A large portion of AirAsia's staff cost is linked to performance.

Aircrew

AirAsia adopts a sector pay policy rather than an hourly pay scale for its pilots. This policy acts as an incentive to pilots to enhance flight operation efficiencies by keeping flight and operation time to a minimum, and cover as many flight sectors as possible in a given work day.

Cabin crew remuneration is based on a basic salary, with sector and productivity allowances given. The sector allowance, which makes up the greatest proportion of the remuneration payable to cabin crew, is calculated based on the number of flight sectors covered, while the productivity allowance is linked to the number of leave days taken, as well as punctuality and availability for duty on standby.

Groundcrew

Groundcrew remuneration is based on a basic salary, with a large proportion of total compensation based on performance, commission from sale of seats, and productivity. Total compensation is linked to factors such as customer service skills, product knowledge, attendance, punctuality and possession of multiple skills.

Engineers

AirAsia's engineers are remunerated based on a basic salary, with type-rating allowances given in recognition of each engineer's qualifications. Type-ratings include air frame, engines, electrical, instrument and radio ratings.

Training

Pilots

Cadet Pilot Training School

AirAsia introduced its own Cadet Pilot Program in December 2003 to help ensure an adequate supply of pilots in connection with AirAsia's expansion plans. Cadet pilots are recruited and enrolled in the Malaysian Flying Academy ("MFA") for training to become professional airline pilots. AirAsia does not discriminate in the recruitment of cadet pilots, and staff from various departments in AirAsia have enlisted in the program. Cadet pilots typically graduate after 18 months of training, after which they are required to train with simulators to be type-rated to fly a Boeing 737-300 aircraft. AirAsia assists its cadet pilots in financing their tuition at the MFA, subject to a bond, in exchange for the cadets' commitment to work for AirAsia for a period ranging from five to 15 years, depending on the amount of the loan. AirAsia's first group of 17 cadet pilots commenced training at MFA in December 2003 and are expected to graduate in May 2005.

Post-academy Training

AirAsia's newly recruited pilots who are not already type-rated undergo type training. A type-rating is a rating that allows a pilot to fly a specified type of aircraft. Pilots currently use Boeing 737 flight simulators operated by MAS, Philippine Airlines, Garuda Indonesia and Boeing for training purposes, with an emphasis on all aspects of flight operations. AirAsia intends to construct its own training facility at KLIA and has entered into a ten-year aviation training agreement with CAE Labuan Inc. ("CAE") in February 2004, to lease a simulator with an option to purchase the simulator upon the expiration of the ten-year term. Pursuant to the terms of the agreement, CAE will install and operate a Boeing 737-300 full-flight simulator for which AirAsia will be the anchor customer, with additional capacity being sold to third parties. Access to this simulator will alleviate AirAsia's current dependency on third parties' simulators. The simulator is expected to be ready for use by early 2005.

Cabin Crew

AirAsia's seven-week Cabin Crew Initial Training Program commenced in September 2002 and has since produced 15 batches of cabin crew, consisting of approximately 12 cabin crew per batch. All training is performed by AirAsia's cabin crew and pilots. Courses include safety emergency procedures, first aid, cabin familiarization, aviation, public announcements, grooming, customer care, in-flight sales and selling skills. The safety and regulatory components of this program have been approved by the DCA.

Cabin crew continuously undergo training, such as training regarding corporate resource management, handling of dangerous goods, handling disruptive passengers and a terrorist awareness course. Cabin crew are also required to attend refresher courses on safety emergency procedures and first aid every year.

Groundcrew

Guest handling personnel undergo a ten-day guest services training program which includes training in AirAsia's reservation and check-in systems, central baggage tracing procedures, customer service and telephone skills. Groundcrew undergo training throughout the year, such as training to identify dangerous goods, perform first aid and handle bomb threats.

Ground handling personnel undergo ramp training that lasts for two to three weeks. Training involves apron driving, aircraft loading and unloading, marshalling, towing and refueling, apron safety and emergency procedures. New employees also learn about civil aviation regulations, the airport layout and regulation of vehicle movement within the airport.

Engineers

AirAsia has an existing arrangement with Aero Precision Resources Sdn Bhd ("APR"), a training school for aircraft mechanics and licensed aircraft maintenance engineers, pursuant to which APR may use AirAsia's name in its enrollment advertisements, as well as AirAsia's aircraft and facilities, for practical training of potential engineers. Graduates of APR will obtain a basic license without type-rating at the end of the three-year course. A type-rating is a rating that allows an engineer to carry out mechanical and maintenance works on a specified type of aircraft. This arrangement, which was implemented in July 2004, allows AirAsia to identify and select engineers for recruitment from APR's graduating class more easily. The selected engineers will be given an allowance as an incentive to work for AirAsia. The recruited engineers will then undergo nine months of training by AirAsia's own type-rated licensed engineers to become engineers that are type-rated to carry out mechanical and maintenance works on Boeing 737-300 aircraft. The newly-qualified type-rated engineers will then be bonded to AirAsia for three to five years.

Potential Impact of the Proposed Acquisition

AirAsia is currently considering the Proposed Acquisition. Assuming AirAsia acquires additional aircraft of a different type than the Boeing 737-300, such aircraft would be delivered over a period of several years and the Group's entire fleet would gradually shift to the new aircraft type, commencing as early as January 2006. The Group's pilots, cabin crew and engineers would have to be trained to operate and maintain the new aircraft type. The Group would also need access to a flight simulator for the new aircraft type. See "— Fleet — Future Plans".

Major Customers

There is no one customer which contributed more than 10% of AirAsia's total revenue for the financial year ended June 30, 2004. Customers of AirAsia mainly consist of individuals traveling by air. For details on revenue generated by passenger seat sales, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Revenue — Passenger Seat Sales".

Major Suppliers

During the financial year ended June 30, 2004, the only supplier of AirAsia which contributed 10% or more of AirAsia's total cost of sales of AirAsia was Petronas. AirAsia has conducted business with Petronas since 1996. AirAsia's jet fuel purchases from Petronas accounted for 93% of AirAsia's aircraft fuel expenses and 34.3% of AirAsia's total cost of sales for the year ended June 30, 2004. Nevertheless, AirAsia believes that comparable jet fuel supply and support is available from other established suppliers. Save as disclosed above, there are no other suppliers of AirAsia which contributed 10% or more of the total cost of sales for the financial year ended June 30, 2004.

Thai AirAsia's Operations

To build on AirAsia's successful implementation of the low-cost model in Malaysia, AirAsia focused its expansion plans in Thailand, which has a population of approximately 62 million people and a strong tourism industry. Thailand enjoys "open-skies" arrangements with India and China which allows Thai AirAsia to expand into Asia's two most populous countries (see "— Traffic Rights").

In November 2003, AAIL, then a company affiliated with AirAsia, entered into a joint venture with Shin Corporation to invest in and operate a low-cost carrier in Thailand. AAIL has a 49% interest in Thai AirAsia, Shin Corporation holds 50% and Thai AirAsia's chief executive officer, Tassapon Bijleveld, together with six other individuals, holds the remaining 1%. Through this joint venture, AirAsia has been able to expand as a result of the additional routes covered by Thai AirAsia.

Thai AirAsia is a no-frills passenger airline modeled after the AirAsia business model. AirAsia manages the operation of Thai AirAsia and has day-to-day financial and operational control of Thai AirAsia. Thai AirAsia operates its airline operations under the AirAsia brand and runs its airline operations in accordance with AirAsia's business model, possessing the same strengths and strategies as AirAsia. AirAsia believes that this joint venture arrangement has enabled Thai AirAsia to start up with a low cost base. Thai AirAsia's five aircraft are leased from AirAsia, which provides the aircraft, insurance coverage and maintenance services to Thai AirAsia (see "— Fleet").

Thai AirAsia's Market

Thai AirAsia commenced operations in February 2004. For the five months ended June 30, 2004, Thai AirAsia flew approximately 380,400 guests to or from DMA, 86.7% of which were guests on routes within Thailand, and 13.3% of which were guests on international routes (to or from Singapore).

The following table presents Thai AirAsia's operating information for its scheduled flights to and from DMA, for the period indicated.

	As at or for the five months ended June 30, 2004
Passengers carried	380,387
RPK (millions) (1)	300
ASK (millions) (2)	395
Average passenger load factor (%) (3)	77
Average fare (Baht)	981
Number of aircraft at period end	4
Average number of aircraft	3
Number of sectors flown	3,348
Aircraft utilization (block hours per day) (4)	12.5
Revenue per RPK (5)	
(Baht)	1.28
(U.S.$)	0.033 (6)
Revenue per ASK (7)	
(Baht)	0.97
(U.S.$)	0.025 (6)
Cost per ASK (8)	
(Baht)	1.33
(U.S. $)	0.034 (6)
Average stage length (kilometers) (9)	789

Notes:

(1) Represents revenue passenger kilometers, which is the number of paying passengers carried on scheduled flights multiplied by the number of kilometers those passengers were flown

(2) Represents available seat kilometers, which is the total number of seats available on scheduled flights multiplied by the number of kilometers those seats were flown

(3) Represents the number of passengers as a proportion to the number of seats available for passengers (148 seats available for AirAsia's Boeing 737-300 aircraft)

(4) Represents the average block hours per day per aircraft during the relevant financial year

(5) Calculated as Thai AirAsia's total revenue divided by RPK

(6) Translated at the rate of exchange of U.S.$1.00 to Baht39.37

(7) Calculated as Thai AirAsia's total revenue divided by ASK

(8) Calculated as total operating expenses (excluding finance costs and taxation) divided by ASK

(9) Represents the average number of kilometers flown per flight

Route Network

As at the date of this Offering Circular, Thai AirAsia operated a route network covering seven scheduled destinations within Thailand and four scheduled international destinations (including a route to Kota Kinabalu for which Thai AirAsia has sold tickets and is expected to commence operations by the end of October 2004). A route map showing Thai AirAsia's existing point-to-point network as at the date of this Offering Circular is presented below.

DMA

DMA, Thailand's principal international airport, is located approximately 25 kilometers north of central Bangkok. It is also Thailand's largest domestic airport, comprising one domestic and two international terminals. DMA serves the most air traffic in Thailand. More than 80 airlines are on service and more than 30 million guests, 160,000 flights and 700,000 tons of cargo are handled at DMA every year.

In February 2004, Thai AirAsia commenced operations from its hub at DMA, flying to Phuket, Chiang Mai, Hat Yai, Khon Kaen and Singapore. For the five months ended June 30, 2004, Thai AirAsia recorded an average passenger load factor of 77% from aircraft operating from DMA.

Construction of Suvarnabhumi Airport, located approximately 30 kilometers east of central Bangkok, commenced in January 2002 and is expected to be completed by the end of 2005. Suvarnabhumi Airport, which will take over all of DMA's international flights when it begins operations, will have two runways, and a planned capacity of 76 flights per hour and 45 million passengers per year. Thai AirAsia currently has no plans to operate out of Suvarnabhumi Airport.

Traffic Rights

Thai AirAsia has traffic rights to all the routes that it currently operates, as well as the routes for which the sale of seats has commenced (see "— Route Network" and "— Schedules and Aircraft Utilization").

Thailand entered into "open-skies" agreements with India in October 2003 and China in January 2004. "Open-skies" arrangements reduce regulations, improve access for airlines to cross-border financing and generally free up air travel in the countries which are parties to this agreement. Barring airport capacity limitations, there is no restriction on the number of Thai-registered airlines that may fly between Thailand and India or Thailand and China. Moreover, Thai-registered airlines are permitted to fly to other countries after landing in India and China, in the exercise of their fifth freedom rights. Thai AirAsia has applied for additional traffic rights to various cities in Southeast Asia, including Phnom Penh, Hanoi, Yangoon and Ho Chi Minh City, and destinations in south China, including Hainan and Kunming.

Schedules and Aircraft Utilization

Schedules

Thai AirAsia currently operates a total of 126 flights per week from DMA to seven destinations in Thailand and four international destinations. A summary of Thai AirAsia's current flight schedule and flight schedule for routes for which it has commenced selling seats as at the date of this Offering Circular operating from DMA and Phuket is presented below:

	Current flight schedule		Flight schedule for routes for which sale of seats has commenced	
From Bangkok to	**Date service commenced**	**Number of flights per week**	**Expected date of commencement**	**Expected number of flights per week**
Domestic:				
Chiang Mai	February 3, 2004	14	—	—
Chiang Rai	March 28, 2004	7	November 5, 2004	18
Hat Yai	February 12, 2004	14	—	—
Khon Kaen	February 3, 2004	7	—	—
Phuket	February 3, 2004	21	—	—
Ubon Ratchathani	June 16, 2004	7	November 5, 2004	17
Udon Thani	April 7, 2004	14	—	—
International:				
Kota Kinabalu	October 21, 2004	7	—	—
Macau	July 5, 2004	14	—	—
Penang	June 16, 2004	7	—	—
Singapore	February 12, 2004	14	October 31, 2004	21
Total		126		
From Phuket to				
International:				
Singapore			November 5, 2004	7

Aircraft Utilization

Thai AirAsia's aircraft utilization is modelled after AirAsia's (see "— AirAsia's Operations — Schedules and Aircraft Utilization — Aircraft Utilization").

Pricing and Revenue Management

Thai AirAsia utilizes the same revenue management system as AirAsia (see "— AirAsia's Operations — Pricing and Revenue Management").

Distribution and Sales

Thai AirAsia uses the same channels of distribution, sales, and payment channels as AirAsia. Thai AirAsia's call center commenced operations in January 2004, enabling passengers to pay for their seats by credit card over the telephone or by cash at any of Bangkok Bank's, Kasikorn Bank's and Siam Commercial Bank's branches located throughout Thailand as a result of Thai AirAsia's strategic partnership with the respective banks.

In addition, Thai AirAsia maintains a network of more than 150 authorized travel agents located throughout Thailand, 28 in Macau and 43 in Singapore, and sales offices at every airport in which it operates. Fifty-two authorized travel agents maintain prepaid accounts with Thai AirAsia from which bookings made by their guests are debited. The authorized travel agents do not have access to FlightSpeed. Thai AirAsia pays a commission of 5% to its authorized travel agents for certain specified, higher fare classes. For fare classes where a commission is not payable, the authorized travel agents are allowed to charge a service fee, on the condition that such service fee is openly disclosed to the guest.

In February 2004, Thai AirAsia entered into an arrangement with Advanced Info Service Pcl ("AIS"), the largest mobile telecommunication operator in Thailand. Through this collaboration, Thai AirAsia's seats can be purchased at AIS' 30 customer service outlets located throughout Thailand.

Bookings by mobile phone using WAP technology is expected to be made available in Thailand by the end of 2004, through Thai AirAsia's collaboration with AIS. AIS subscribers would be able to access the Internet and make reservations and payment through their mobile phones, and will be charged based on AIS' prevailing charges for WAP usage, which is based on the volume (in kilobytes) downloaded by the subscriber through the WAP site. Thai AirAsia is considering the extension of SMS and WAP booking services to Singapore through a collaboration with Singapore Telecommunications Ltd, Singapore's largest mobile phone provider, by June 30, 2005.

In-flight Service

Thai AirAsia, having adopted AirAsia's low-cost business model, provides friendly and professional, but no-frills, services. In February 2004, Thai Crunch Time was established as a joint venture between Thai AirAsia and Crunchtime, to provide food and beverage and merchandise services to Thai AirAsia for its flights.

Service

Thai AirAsia is committed to providing high-quality customer service by providing its guests with a safe, low-cost, valuable, reliable and friendly service, in line with the AirAsia business model (see "— AirAsia's Operations — Service").

Fleet

AirAsia leased two of its Boeing 737-300 aircraft in February 2004, one of its aircraft in March 2004, one of its aircraft in June 2004, and one of its aircraft in October 2004, to Thai AirAsia for a period of approximately six months each. Pursuant to the terms of these leases, AirAsia, as lessor, provides the aircraft, insurance coverage and maintenance services to Thai AirAsia. AirAsia seconds its crew to Thai AirAsia as and when necessary (please see "— Employees"). Thai AirAsia pays for the lease of the aircraft and all other costs, such as fuel, landing and parking fees. On September 15, 2004, the term of these leases was restated and now will expire on December 14, 2004. The five aircraft, which are currently Malaysia-registered aircraft, will be Thai-registered upon the expiry of the restated lease period after which AirAsia would lease each aircraft to Thai AirAsia for a further period of approximately five years.

Safety and Security

Thai AirAsia's five aircraft, being leased from AirAsia, have the same safety and security system as AirAsia itself (see "— AirAsia's Operations — Safety and Security").

Maintenance and Spare Parts

Thai AirAsia's aircraft are maintained by AirAsia pursuant to the leasing arrangement (see "— Thai AirAsia's Market — Fleet" and "AirAsia's Operations — Maintenance and Spare Parts").

Fuel

AirAsia undertakes all of Thai AirAsia's fuel hedging requirements (see "AirAsia's Operations — Fuel"). Thai AirAsia purchases its fuel from PTT Public Company Limited and The Shell Company of Thailand Limited in Thailand.

Airport Operations

Thai AirAsia currently has four check-in counters at DMA's domestic terminal, and another four check-in counters at DMA's international terminal. Thai AirAsia-designated check-in counters in other Thai airports range from between two to five counters. Ground handling services and equipment at all Thai destinations have been handled by Thai AirAsia since July 2004. In Singapore, ground handling services and equipment are provided by Changi International Airport Services at Singapore's Changi International Airport pursuant to a one-year contract expiring on January 31, 2005. The Civil Aviation Authority of Singapore handles operations at the airport, including security screening of guests and luggage. In Macau, ground handling services and equipment are provided by Menzies Macau Airport Services Ltd pursuant to a one year contract expiring on May 31, 2005.

Thai AirAsia is assessed airport charges including landing and parking fees, check-in counters charges, air navigation flight charges and security fees. Thai AirAsia is also charged a standard rate for use of ground support service facilities such as check-in counters based on the total number of flights per annum. See also "— AirAsia's Operations — Airport Operations — Airport Charges".

Competition

Thai AirAsia's largest competitor is THAI. In addition, Thai AirAsia faces domestic competition for its routes within Thailand from budget airlines such as Nok Air (associated with THAI) which commenced operations in July 2004, One-Two-Go (associated with Orient Thai) which commenced operations in December 2003, Valuair which commenced operations in May 2004 on the Bangkok-Singapore route and Tiger Airways which commenced operations in September 2004 on three routes between Singapore and Thailand. Thai AirAsia faces the fiercest competition on its Bangkok-Singapore route from 12 full-service airlines and two low-cost carriers flying this route. Many of these airlines, such as Finnair, Scandinavian Airline System and Cathay Pacific Airways exercise their fifth freedom rights to fly this route and offer low fares. In addition, during September and October 2004, Thai AirAsia and Tiger Airways offered promotional fares on certain routes between Singapore and Thailand. Notwithstanding this, Thai AirAsia has maintained an average passenger load factor of approximately 70% on its Singapore-Bangkok route since it commenced operations on this route.

Thai AirAsia's believes that it has a competitive advantage over budget airlines associated with full-service airlines because it lacks any conflicts of interest between the full-service parent airline and the budget airline, which can arise as a result of the budget airline cannibalizing the market share of the full-service parent airline. Thus, Thai AirAsia is able to strategize and plan its route network based on its own interest, without consideration of the interests of any competing related party.

Employees

Each of AirAsia and Thai AirAsia has made arrangements for the inter-company secondment of their cabin crew and pilots.

As at June 30, 2004, Thai AirAsia had 436 employees, consisting of pilots, cabin crew and administrative staff. The following is a breakdown of Thai AirAsia's employees as at June 30, 2004.

	Number of Employees
Flight operations	
Pilots and Co-pilots(1)	38
Cabin Crew(1)	62
Ground Operations(2)	131
Engineering	128
Marketing	6
Call center and reservation	38
Finance	10
Human Resource/Administration/Information Technology	6
Others	17
Total	436

Notes:

(1) Includes Thai AirAsia cabin crew and pilots seconded to AirAsia

(2) Consists of guests handling personnel and ground handling personnel

Thai AirAsia's employees are not unionized. There has never been any labor strikes or work stoppages. Management believes its relationship with its employees is good.

Employee Efficiencies and Costs

Thai AirAsia's staff remuneration policy is similar to that of AirAsia's (see "— AirAsia's Operations — Employees — Employee Efficiencies and Costs").

Training

Thai AirAsia's pilots, cabin crew, groundcrew and engineers are trained in a similar manner as AirAsia's (see "— AirAsia's Operations — Training").

Legal Proceedings

No member of the Group is engaged in any material litigation, claims or arbitration either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiaries and the Directors of the Company have no knowledge of any proceedings pending or threatened against the any member of the Group or of any facts likely to give rise to any proceedings which may materially and adversely affect the position and business of the Company or its subsidiaries.

REGULATION OF THE AIRLINE INDUSTRY IN MALAYSIA

The airline industry in Malaysia, as in many countries, is heavily regulated. The authority responsible for overseeing the industry in Malaysia is the DCA.

DCA

The DCA is an organization within the MOT which administers aviation activities. The DCA is the authority for all activities that involve the transportation of passengers, mail and cargo from and into Malaysian airspace and is therefore responsible for aircraft certification, registration, personnel certification, airport licensing, air operator certification, air traffic control and air navigation equipment certification.

The DCA's main objective is to ensure that the air transportation (aviation) system operated by direct service providers is always safe for passengers. Its priority is to ensure that aviation service providers conduct their activities in compliance with appropriate regulations. These laws and regulations have been based on the ICAO standards and recommended practices.

The legislative framework of the DCA consists primarily of the Civil Aviation Act, 1969, the Carriage By Air Act 1974, the Extra-Territorial Offences Act 1976, Aviation Offences Act 1984 and the Civil Aviation Regulations 1996. The legislation is in line with international conventions such as the Convention on International Civil Aviation concluded in Chicago in 1944, and the Warsaw Convention as amended at the Hague 1955 Convention for the Unification of Certain Rules Relating to International Carriage by Air.

Airline Operations in Malaysia

To operate a scheduled airline in Malaysia, a carrier of passengers, mail or cargo will first need to hold an ASL obtained from the DCA. In granting the ASL, the DCA is at liberty to impose any conditions, giving consideration to the nature and circumstances of the application. The DCA will give particular regard to, among other factors, the existence of other services in the area where the applicant's services are to be operated, the demand for air transport and the degree of efficiency and regularity of air services, if any, already provided in the area.

The ASL is valid for a period determined by the DCA, in any case not exceeding five years. It is a condition of every ASL that the licensee and any person having a financial interest in the business of the licensee shall not enter into any agreement or arrangement with any person that would preclude or restrict that person from providing booking facilities to any other air service licensee. As to other conditions imposed on the license (if any), the DCA has the power to vary or revoke such conditions or impose new or additional conditions thereon.

Further, the DCA may at any time suspend or revoke the ASL if the licensee has been convicted of an offense under the law related to air navigation or air transport, contravened or failed to comply with any conditions imposed on the license or furnished false and misleading information in relation to the license application.

In relation to any aircraft registered in Malaysia (a "Malaysian aircraft"), the operator of the aircraft is required to hold an AOC granted by the DCA. Such AOC is granted on the basis of the fulfillment of certain criteria including competence of the operator, its equipment, staff, maintenance and other arrangements.

A Malaysian aircraft may fly only if it has been issued a certificate of airworthiness by the DCA. The DCA issues a certificate only when it is satisfied that the aircraft is fit to fly, having regard to factors such as the design, construction, workmanship and materials of the aircraft, the results of flying trials and such other tests as required by the DCA. Further, the DCA gives due consideration to airworthiness notices issued by, and the code of airworthiness certification and procedural requirements from time to time in force under, the Federal Aviation Regulations of the United States of America, the British Civil Airworthiness Requirements issued by the Civil Aviation Authority of the United Kingdom and the Joint Aviation Requirements issued by the Joint Aviation Authorities of the European States. The certificate of airworthiness may be issued subject to conditions that DCA deems appropriate.

It is also a requirement that a Malaysian aircraft not fly unless the aircraft, including in particular its engine, together with its equipment and radio station, is maintained in accordance with the maintenance schedule approved by the DCA in relation to that aircraft, and a certificate is issued for that aircraft in accordance with the DCA regulations certifying the dates on which the scheduled maintenance inspection and maintenance review was carried out and when the next review is due.

With respect to the maintenance of the aircraft, the DCA grants to engineers an aircraft maintenance license upon satisfaction that the applicant is fit to hold the license and has furnished evidence and passed the requisite tests required by the DCA for the purposes of establishing that he has sufficient knowledge, experience, competence and skill in aeronautical engineering. The license may be subject to such conditions as the DCA may deem appropriate. The license authorizes the holder to issue a certificate of release to service or schedule maintenance inspections in respect of such aircraft as may be so specified, for such overhauls, repairs, replacements, modifications and inspections of such aircraft and such equipment as may be so specified or a certificate of fitness for flight under "A Conditions" regarding such aircraft as may be so specified.

In addition, to fly in or over Malaysia, an aircraft needs to be Malaysian registered or possess a recognized foreign registration from a country party to the Chicago Convention or any other foreign state where there is an agreement between the Government and the government of the foreign state. Generally, only the Government, a citizen of Malaysia or a body incorporated and having its principal place of business in Malaysia is qualified to be the owner of a legal or beneficial interest in a Malaysian aircraft or any share therein.

Aircraft Crew and Mortgages

Airline regulations prohibit an aircraft from flying in Malaysia unless it carries a flight crew (which, in relation to an aircraft, are those members of the crew who respectively undertake to act as pilot and flight engineer of the aircraft during flight time) of the number and description required by the law of the State in which it is registered. A Malaysian aircraft must carry a flight crew adequate in number and description to both meet the requirements of the certificate of airworthiness issued for that aircraft and to ensure the safety of the aircraft.

To be a member of the flight crew of a Malaysian aircraft, an individual needs to be the holder of an appropriate license granted or rendered valid under the Civil Aviation Regulations. The DCA may, subject to certain conditions, grant licenses such as the commercial pilot's license, airline transport pilot's license and the flight engineer's license where it is satisfied that the applicant is fit to hold the license and is qualified by reason of his knowledge, experience, competence, skill and physical and mental fitness to perform the functions required under the license. Certain licenses, like the commercial pilot's license and airline transport license, cannot be renewed by or granted to any person attaining the age of 60 years. The DCA can, however, extend this to a maximum age of 65 years on a case-by-case basis.

In the interest of safety, the DCA has the authority to direct any particular operator to carry additional persons as members of the flight crew. When a Malaysian aircraft carries more than 20 passengers, the crew must include cabin attendants who cannot act as members of the flight crew. These cabin attendants perform duties assigned by the operator or the commander of the aircraft in the interest of safety of the passengers.

The DCA also allows for the registration of any mortgage of a Malaysian aircraft to be entered into the aircraft register by way of application. Mortgages are entered in the order of the receipt of the applications. A release document must be signed by the mortgagor before the owner can de-register the aircraft.

Domestic Traffic Rights

In order to operate scheduled domestic passenger services, an airline is required to secure rights from the MOT. The MOT is the approving authority for domestic flight rights and grants these rights depending on traffic volume and the spread of services. The MOT does not permit flights to be scheduled closely in time to one another unless a large frequency of flights on a particular sector precludes the provision of an "acceptable" spread between the departures.

International Traffic Rights

The operation of international passenger services depends on traffic rights negotiated between the Government and the government of the other country. These rights are enshrined in the ASA between the two governments with the capacity of the international air services to be negotiated. The ASAs are borne out of the Chicago Convention and set out the framework under which air services operate to establish international air transport services on the basis of equality of opportunity and operate soundly and economically.

As ASAs are negotiated and agreed on a government-to-government basis, the relevant traffic rights enshrined in these agreements therefore belong to the Government. Consequently, any application to operate passenger services to international destinations needs to be directed to the MOT for approval and allocation of the requested traffic rights. Depending on the provisions of the ASA, each state may then grant rights to one or more airlines.

The ASAs are not available to the public or private airline operators for inspection. However, the Company believes that the ASAs include the standard ICAO Chicago provision, which provides that each contracting party shall have the right to refuse to accept the designation of an airline and to withdraw or revoke the grant to an airline of specified privileges or to impose such conditions as it may deem necessary on the exercise by an airline of those privileges in any case where it is not satisfied that substantial ownership and effective control of the airline are vested in the contracting party designating the airline or in the nationals of the contracting party designating the airline.

The Chicago Convention and the contemporaneously drafted treaties (the International Air Services Transit Agreement and International Transport Agreement) are, however, silent as to the criteria for determining substantial ownership and effective control of an airline. In these respects, certain countries and airlines have adopted mechanisms (including specific legislation) aimed at controlling foreign investment in the airlines. In Malaysia, there is as yet no legislation to that effect.

Besides traffic rights, any international operator is also subject to the issue of slots coordination for each IATA season. The two IATA seasons are the northern summer season, from the last Sunday in March until the last Saturday in October, and the northern winter season, from the last Sunday in October to the last Saturday in March. Prior to each season, an airline wishing to operate internationally is required to apply for slots allocation, which are currently allocated by MAS, based on terminal limitations, runway capabilities and availability of apron parking.

Malaysia's ASAs

With few variations, Malaysia's ASAs are likely to incorporate the internationally adopted requirement that (i) substantial ownership and (ii) effective control of the Company must be vested in Malaysian nationals. If these requirements are not met then there is a risk that the Company's right to fly on international routes may be challenged.

International practices on the issues of substantial ownership and effective control would require ownership of 51% of the Company to be in the hands of Malaysian nationals who at the same time, control all major decisions in the airline.

With the view of protecting the Company's international route rights, the following measures have been or will be taken in the course of implementing the Initial Public Offering:

(a) pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 ("Regulations"), the Shares in the Company shall be designated "restricted shares" and shall have a prescribed limit on ownership by foreign interests;

(b) the prescribed limit stipulated in the Company's Articles of Association is the aggregate limit of 45.0% of the total issued and paid up share capital of the Company or such other limit as may be prescribed from time to time by any written law or by the rules, guidelines or directives issued by the relevant authorities;

(c) a foreign interest whom the Company determines has Shares in his securities account which exceed the prescribed limit as at the date of such determination (which shall take into account the time of acquisition) shall be entitled to all rights, benefits, powers and privileges and be subject to all liabilities, duties and obligations in respect of or arising from such shares, except for the voting rights in respect thereof;

(d) the disenfranchised voting rights shall be automatically vested in the chairman during the general meeting. The chairman shall be at liberty to exercise the voting rights as such foreign interest otherwise would have, but for having exceeded the prescribed limit, including to not exercise the voting rights at all;

(e) Shares held by foreign interests within the prescribed limit at the point of determination shall without exception continue to be entitled to all rights, benefits, powers and privileges and be subject to all liabilities, duties and obligations in respect thereof;

(f) in the interim, when shareholdings of foreign interests come within 5.0% of the prescribed limit of 45.0% and the Directors, having regard to prevailing circumstances, are of the opinion that route rights may be compromised, the Directors shall immediately undertake a restricted issue and/or placement of new shares or securities upon such terms as it deems fit and in the best interests of the Company, in order to protect the route rights;

(g) a majority number of the Directors of the Company (disregarding alternate Directors) shall be Malaysian nationals;

(h) the Chairman of the Board of Directors shall be a Malaysian national; and

(i) the Directors' power to fill casual vacancies in the Board of Directors or to appoint additional Directors, shall always be exercised to maintain the Malaysian majority number.

Licenses

The Company has complied with the conditions of all licenses, regulatory approvals and permits applicable to it. The Company believes that its licenses and approvals are in good standing and expects to be able to continue to fulfill its license and approval terms to the satisfaction of the relevant authorities. Details of the principal licenses and approvals and the material terms are set out below:

ASL

The Company is the holder of a valid ASL issued by the DCA. The salient terms of the ASL are as follows:

License Number:	01/2004(S)
Date of Issue:	April 1, 2004
Validity Period:	5 years, from April 1, 2004 to March 31, 2009
Approval Type:	Approval to operate "Scheduled Air Service (Passengers)"

Some of the conditions imposed in the ASL are as follows:

(1) "This license will be revoked if changes to the equity are without prior approval of the Department";

(2) "AirAsia is permitted to operate Scheduled Air Services for the carriage of passenger over approved domestic and international routes";

(3) "AirAsia may, on the international approved route, operate in order as long as the point of origin is a point in Malaysia";

(4) "in respect of international approved routes, the Company is permitted to exercise traffic rights in accordance with the terms and conditions specified in the current Memorandum of Understanding to the Air Transport Agreements concluded between the Government of Malaysia and the respective Governments";

(5) "this license is granted subject to the condition that it may be terminated by the Director General of Civil Aviation on giving the Company three (3) months' notice in writing. The period of three months, as aforesaid, commences from the date such notice is given";

(6) "All aircraft should have valid insurance coverage";

(7) "The operator is required to submit the Annual and Financial Reports";

(8) "This license will be revoked if the operator is incompetent to conduct flight operations";

(10) "The operator must possess a valid AOC as stipulated in Regulation 24 of the Malaysian Civil Aviation Regulation, 1996 issued by the Department";

(11) "Any new routes either locally or internationally requires prior approval from the Department";

(12) "The operator is required to settle relevant fees as stipulated in Regulation 186 of the Malaysian Civil Aviation Regulation, 1996, Schedule Twelve, Part B (Other Charges) of the ASL"; and

(13) "The holder of this License must comply with other terms and conditions stipulated by the Director General of Civil Aviation, Malaysia from time to time".

In respect of condition (1) above, the DCA has by its letter dated June 3, 2004 waived the condition, subject to the following:

(1) that the DCA has no objection to the Initial Public Offering on condition that the Company complies with the guidelines stipulated in the Foreign Investment Committee's letter of approval dated April 24, 2004, which states that Tune Air shall maintain at least 51% local equity, including 30% Bumiputra equity, at all times; and

(2) that with particular regard to the equity condition set out in the ASL, it shall be sufficient if the Company were to apprise the DCA from time to time, when required by the DCA, of any change to the requisite 30% ownership requirement.

AOC

The Company is also the holder of a valid AOC issued by the DCA. The salient terms of the AOC are as follows:

Certificate Number:	AOC 10
Date of Issue:	September 17, 2004
Validity Period:	1 year from September 29, 2004 to September 28, 2005
Approval Type:	Authorized to operate as an Air Operator and conduct "Scheduled Journeys"

Certificates of Registrations and Certificate of Airworthiness

As at the date of this Offering Circular, the Company has a fleet of 24 aircraft with the required Certificates of Registrations and Certificates of Airworthiness.

Approval to Issue Certificates of Release to Service

The Company is also the holder of a "Certificate of Approval" issued by the DCA for the issue of a certificate of release to service or the furnishing of reports where these are required in relation to the inspection, overhaul, repair, replacement, modification and testing in accordance with approved manufacturer's manuals and documents. This mandates the Company to conduct and sign off on its own repair and maintenance works on aircraft, undertaken in adherence to manufacturer's standards and requirements. The salient terms of the Certificate of Approval are as follows:

Certificate Number:	AO/0115/02
Date of Issue:	November 13, 2002
Date of Revision:	April 28, 2004
Validity Period:	Conditional upon the Company making payment to DCA of the relevant statutory fee prior to the anniversary date of issue of this Certificate

Tour Operating Business License

AirAsia Go Holiday, the operating company for "Get a Room" and "Go Holiday", was incorporated in Malaysia on August 6, 2004 under the Companies Act, as a private company limited by shares.

On September 10, 2004, the Ministry of Tourism Malaysia approved the grant of a license to AirAsia Go Holiday to undertake tour operations (both inbound and outbound) and travel agency businesses, including ticketing, at KLIA.

The approval is conditional upon AirAsia Go Holiday fulfilling the following conditions:

- its business premises must meet with certain requirements pertaining to, among others its location and minimum floor space, within a month from the approval;

- it must become a member of the Malaysian Association of Tourism and Travel Agencies; and
- AirAsia Go Holiday is to change its name to one which is reflective of its tours and travel businesses.

The tour operating business license will be issued to AirAsia Go Holiday upon fulfilment of the stated conditions and the payment of a nominal annual fee. See "Business — AirAsia's Operations — Ancillary Revenues".

MANAGEMENT

Board of Directors

The Board of Directors has adopted a set of corporate governance guidelines which set out the following responsibilities for effective discharge of its functions:

Within the limits set by the Company's Articles of Association, the Board of Directors is responsible for leading and managing the Company. 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 Company;
- overseeing the conduct of the Company's business to evaluate whether the business is being properly managed;
- identifying principal risks and ensure the implementation of appropriate systems to manage these risks;
- succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing Management;
- developing and implementing an investor relations programme or shareholder communications policy for the Company; and
- reviewing the adequacy and the integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Under its Articles of Association, the Company must have at least two Directors.

As at the date of this Offering Circular, the Company's Board of Directors consists of 12 Directors. Under the Company's Articles of Association, four of the Directors who are subject to retirement by rotation shall retire at each annual general meeting of shareholders but are eligible for re-appointment. The members of the Board of Directors of the Company as at the date of this Offering Circular are set forth below:

Name	Age	Address	Nationality	Date of Appointment	Designation
Dato' Pahamin bin Ab. Rajab	58	No. 27, Jalan SS 3/80, 47300 Petaling Jaya, Selangor Darul Ehsan	Malaysian	December 12, 2001	Chairman
Tony Fernandes	40	17, Jalan Birah, Damansara Heights, 50490 Kuala Lumpur	Malaysian	December 12, 2001	Group Chief Executive Officer
Kamarudin bin Meranun	43	27, Jalan 15/1, Taman Tun Abdul Razak, 68000 Ampang, Selangor Darul Ehsan	Malaysian	December 12, 2001	Director
Sami Ali A. Sindi	37	110 East 55th Street, New York, NY 10022	Saudi Arabian	July 18, 2003	Director
Mumtaz Khan	55	10th Floor, A1 Salan Tower P.O. Box 11385, Manama, Kingdom of Bahrain	Pakistani	July 18, 2003	Director
John Francis Tierney	59	Castletown, Portroe Nenagh, Co., Tipperary, Ireland	Irish	July 18, 2003	Director
Conor Mc Carthy	42	32, Home Farm Park, Drumcondra, Dublin 9, Ireland	Irish	June 21, 2004	Director
Tan Sri Dato' (Dr) R.V. Navaratnam	69	9, Lorong Medang Bukit Bandaraya 59100 Kuala Lumpur	Malaysian	October 4, 2004	Independent Director
Datuk Leong Sonny alias Leong Khee Seong	65	No. 74, Lorong Buluh Perindu 2, Taman Sa, 59000 Kuala Lumpur	Malaysian	October 4, 2004	Independent Director

Name	Age	Address	Nationality	Date of Appointment	Designation
Fam Lee Ee	43	70, Jalan SS 21/1 Damansara Utama 47400 Petaling Jaya	Malaysian	October 4, 2004	Independent Director
Abdel Aziz alias Abdul Aziz bin Abu Bakar (as alternate)	50	No. 64, Jalan Setiajaya, Damansara Heights, 50490 Kuala Lumpur	Malaysian	October 11, 2004	Alternate Director
Richard Todd Scanlon (as alternate)	35	10A, Kay Siang Road, Singapore 248927	American	December 22, 2003	Alternate Director
Adeeb Ahmad (as alternate)	38	Villa 2707, Road 2770, Manama 327 Kingdom of Bahrain	Pakistani	December 22, 2003	Alternate Director
Brian Douglas Courtney (as alternate)	46	23, Friths Drive Reigate, Surrey, RH2 0DS, England	British	March 9, 2004	Alternate Director

Biographies of Directors

Dato' Pahamin bin Ab. Rajab, an advocate and solicitor of the High Court of Malaya, was appointed as Chairman of the Company on December 12, 2001. Prior to joining the Company, he worked in several ministries and government agencies in Malaysia for 30 years, where he held various key positions, including Director-General of Road Transport Department at the Ministry of Transport from 1974 to 1998, Secretary-General of the Ministry of Domestic Trade and Consumer Affairs from 1998 to 2001, and Chairman of the Patent Board and the Controller of Copyright from 1998 to 2001. He is recognized internationally as an expert in intellectual property laws by the World Intellectual Property Organization and, in 2000, was awarded the prestigious "Cyber Champion International Award" by the Business Software Alliance in Washington. Dato' Pahamin received a B.A. degree in International Relations from the University of Malaya in 1970, a post-graduate Diploma in Shariah Law and Practice from the International Islamic University, Malaysia in 1991, a law degree from the University of London in 1990 and a Masters of Arts (Public Policy and Administration), majoring in Economic Development, from the University of Wisconsin in 1978.

Tony Fernandes was appointed as Group Chief Executive Officer of the Company in December 2001. He was Financial Controller at Virgin Communications London from 1987 to 1989, Senior Financial Analyst at Warner Music International London from 1989 to 1992, Managing Director at Warner Music Malaysia from 1992 to 1996, Regional Managing Director, ASEAN from August 1996 to December 1999 and Vice President, ASEAN from December 1999 to July 2001 at Warner Music South East Asia. Tony was actively involved in developing the Malaysian music industry and received the title "Setia Mahkota Selangor" from His Royal Highness King of Malaysia Sultan Salahuddin Abdul Aziz Shah in 1999 in recognition of his contributions and was also the recipient of the "Recording Industry Person of the Year 1997" by the Recording Industry Association of Malaysia. In addition, he was awarded the International Herald Tribune award for the Visionaries & Leadership Series in 2003 for his outstanding achievement with AirAsia, and was named "Malaysia CEO of the Year 2003" by American Express and the Business Times. Tony was recently awarded "Emerging Entrepreneur of the Year — Malaysia 2003" in the Ernst & Young Entrepreneur of the Year Awards in 2004. He was admitted as an Associate Member of the Association of Chartered Certified Accountants in 1991 and became a Fellow Member in 1996.

Kamarudin bin Meranun was appointed as Director of the Company on December 12, 2001. In January 2004, he was appointed as Executive Director, Corporate Finance and Strategic Planning of the Company. Prior to joining the Company, he worked in Arab-Malaysian Merchant Bank from 1988 to 1993 as a Portfolio Manager, managing both institutional and high net-worth individual clients' investment funds. In 1994, Kamarudin was appointed as an Executive Director of Innosabah Capital Management Sdn Bhd, a subsidiary of Innosabah Securities Sdn Bhd. Kamarudin then acquired the shares of its joint venture partner of Innosabah Capital Management Sdn Bhd, which was later renamed Intrinsic Capital Management Sdn Bhd. Kamarudin received a Diploma in Actuarial Science from University Technology MARA (UiTM) and was awarded the "Best Actuarial Student" by the Life Insurance Institute of Malaysia in 1983. Kamarudin received a B.Sc. degree with Distinction (Magna Cum Laude) majoring in Finance in 1986 and an MBA in 1987 from the Central Michigan University.

Sami Ali A. Sindi was appointed as Director of the Company on July 18, 2003. From 1996 to 1998, he was a Vice President at Morgan Stanley, New York's Investment Banking Division where he focused primarily on the Energy and Financial Services industries, providing strategic advisory services and executing private/public equity/debt financings. In 1998, he relocated to Morgan Stanley, Singapore, where he focused on the energy, chemical and pulp and paper industries and advised corporate and government clients in the Asia Pacific region on strategic and financing transactions until 2000. He founded Crescent Venture Partners in 1999. Sami received a B.A. (Hons) degree in Jurisprudence from Oxford University in 1990 and a Master in Law from Harvard Law School in 1991.

Mumtaz Khan was appointed as Director of the Company on July 18, 2003. He has been Chairman and CEO of Emerging Markets Partnership (Bahrain) E.C., the General Partner and Manager of the U.S.$730.5 million Islamic Development Bank Infrastructure Fund L.P. since 2001. From 1994 to 2001, he was a Managing Director with Emerging Markets Partnership, Washington. From 1981 to 1994, he held various positions at International Finance Corporation, the last of which was Manager, Asia Department. He obtained a Bachelor of Science in Mechanical Engineering from the University of Engineering and Technology in Lahore, Pakistan in 1969 and an MBA from the Iran Center for Management Studies in Tehran in 1979.

John Francis Tierney was appointed as Director of the Company on July 18, 2003. He has more than 20 years of experience in the aviation industry, having served as Chief Financial Officer and Director of GPA Group Plc, a global aircraft-leasing company, from 1981 to 1997, and Chairman of Datalex Plc, a leading Irish software travel company, from 1998 to 2001. He has been a non-executive director of America West Airlines since 1993 and also runs a private investment and consulting firm, Castletown Financial Services, since 1997. John received a Bachelor of Commerce and an MBA from University College Dublin, Ireland, in 1966 and 1976, respectively, and is a fellow of the Institute of Chartered Accountants in Ireland.

Conor Mc Carthy was appointed as Director of the Company on June 21, 2004. He is currently Managing Director of PlaneConsult.com, a leading aviation business solutions provider, which has clients including low fare airlines, full-service carriers and airports. Prior to establishing PlaneConsult.com, Conor was the Director of Group Operations at Ryanair from 1996 to 2000. While he was with Ryanair, the airline underwent a successful initial public offering on NASDAQ and the Irish Stock Exchange. Before his role with Ryanair, Conor was the CEO of Aer Lingus Commuter. Prior to that, he was General Manager/SVP level in the Marketing and Strategic Planning areas. He spent 18 years with Aer Lingus in all areas of the airline business from Engineering, Operations and Maintenance to Commercial Planning, Marketing and Route Economics to Finance, Strategic Management, Fleet Planning and General Management. Conor joined Aer Lingus as an Apprentice Avionics Engineer in 1978 and subsequently won a scholarship through which he graduated in 1986 with a First Class Honors degree in Engineering from Trinity College Dublin.

Tan Sri Dato' (Dr) R.V. Navaratnam was appointed as Independent Director of the Company on October 8, 2004. He is currently the Corporate Adviser of the Sunway Group and Deputy Chairman of Sunway College. Prior to this, he held various posts in the Malaysian Treasury for 27 years, including Deputy Secretary-General of the Treasury (1959 to 1988) and Secretary-General of the Ministry of Transport (1986 to 1989). Tan Sri currently holds directorship positions at the Monash University and the Asian Strategy and Leadership Institute, and is an executive director of Sunway Construction Bhd. Tan Sri graduated with a degree in Economics from the National University Malaya in 1959, received a Diploma in Public Administration from the Royal Institute of Public Administration in London in 1963 and an Executive MPA in Economics from Harvard University in 1969.

Datuk Leong Sonny alias Leong Khee Seong was appointed as Independent Director of the Company on October 8, 2004. He was the Minister of Primary Industries from 1978 to 1986 and a member of Parliament from 1974 to 1990. Prior to this, he was a substantial shareholder of his family's private limited companies, involved in general trading. He was the Chairman of the General Agreement on Tariffs and Trade's Negotiating Committee on Tropical Products (1986 to 1990) and was the Chairman of the Group of 14 on ASEAN Economic Cooperation and Integration (1986 to 1987). Datuk Leong graduated with a degree in Chemical Engineering in 1964 from the University of New South Wales, Australia.

Fam Lee Ee an advocate and solicitor of the High Court of Malaya, was appointed as Independent Director of the Company on October 8, 2004. He is currently the senior partner of Messrs YF Chun, Fam & Yeo. He has been Trustee of Yayasan Pejati since 1996. He also serves as a director of Tiong Nam Logistics Holdings Berhad since March 2002 and M-Mode Berhad since September 2004. Fam received a BA (Hons) from the University of Malaya in 1986 and an LL.B (Hons) from the University of Liverpool, England in 1989.

Abdel Aziz alias Abdul Aziz bin Abu Bakar was appointed as an alternate Director of the Company to Dato' Pahamin on October 11, 2004. Prior to that, he served as a Director of the Company from December 12, 2001. From 1981 to 1983, he was Executive Director of Showmasters (M) Sdn Bhd, an artiste management and concert promotion company. Aziz subsequently joined BMG Music in Malaysia and was its General Manager from 1989 to 1997 and its Managing Director from 1997 to 1999. He then served as Executive Director in Anzagain Sdn. Bhd., which later merged with Darul Ehsan Multimedia Corporation to form DEMC — Anzagain, from 1999 to 2000. Aziz received his degree in Agriculture Business from the Louisiana State University in 1978, a diploma in Agriculture Business from Universiti Pertanian Malaysia in 1975 and an MBA from the University of Dallas in 1980. He is currently the Chairman of PAIMM (Academy of Malaysian Music Industry Association) and PRISM (Performance and Artists Rights Malaysia Sdn Bhd), a performers' collecting body.

Richard Todd Scanlon was appointed as alternate Director of the Company to Sami Ali A. Sindi on December 22, 2003. He is currently a partner at Crescent Venture Partners and is Managing Director of Crescent Venture Partners' business in the Asia Pacific region, where he has been based since 1996. Prior to joining Crescent Venture Partners, he worked at Morgan Stanley from 1997 to 2001 and became Vice President at Morgan Stanley's Investment Banking Division in 1999. From 2001 to 2003, he was Vice President at Credit Suisse First Boston's Emerging Markets Coverage Group and Investment Banking Department. Richard received a B.A. with Distinction (Cum Laude) from Middlebury College, where he majored in Architecture and Physics (Honors Thesis), in 1993.

Adeeb Ahmad was appointed as alternate Director of the Company to Mumtaz Khan on December 22, 2003. He has been Director, Investments of Emerging Markets Partnership (Bahrain) and the General Partner and Manager of the U.S.$730.5 million Islamic Development Bank Infrastructure Fund L.P. since 2000. He was an Assistant Director for the Global Islamic Finance Division at ANZ Investment Bank from 1999 to 2000, Senior Manager and Head of Structured Asset Finance and Global Islamic Finance Division at ABN AMRO Bank, Bahrain from 1998 to 1999, and Senior Vice President, Head of Investment Banking Group, Industrial Credit & Project Finance Divisions of the Muslim Commercial Bank Limited, Pakistan from 1995 to 1998. Adeeb received an M.Sc. in Accounting and Finance from the London School of Economics & Political Science in 1993 and an MBA from the Institute of Business Administration, University of Karachi, Pakistan in 1988.

Brian Douglas Courtney was appointed as an alternate Director of the Company on March 9, 2004. He is currently a Director of Aer Lucht, a joint venture company which invests in passenger aircraft which are subsequently converted to freight aircraft. He has been Senior Vice President at DVB Bank since 1999. He was a Deputy General Manager of the Long-Term Credit Bank of Japan in London from 1987 to 1997, and a Director at Barclays Capital from 1997 to 1998. Brian received a B.Sc. in Economics from Southampton University in 1980.

Directorships and Substantial Shareholdings in all Other Public Corporations for the Past Two Years

The directorships and substantial shareholdings of the Directors in other companies which are public or publicly listed, held in the two years preceding the date of this Offering Circular are set forth below.

				Direct		Indirect		
Director	**Name of Company**	**Nature of interest**	**Date of appointment as Director**	**No. of shares**	**%**	**No. of shares**	**%**	**Principal activities**
Dato' Pahamin bin Ab. Rajab	SEG International Berhad	Director	July 1, 2002	—	—	—	—	Education
	Zaiton Berhad	Director	June 29, 2002	—	—	—	—	Investment holding
John Francis Tierney	America West Holdings Corporation	Director/ Shareholder	December 12, 1993	4,282	—(1)	—	—	Airline
	Lecan Holdings Limited	Director/ Shareholder	May 15, 1999	25,000	—(1)			Software and consulting services to the pharmaceutical industry
Richard Todd Scanlon.............	Captive Vision Capital Ltd	Director	April 15, 2004	—	—	—	—	Investment holding
Tan Sri Dato' (Dr) R.V. Navaratnam	Sunway Construction Berhad	Director	August 4, 1996	—	—	—	—	Construction of civil and building works

Director	Name of Company	Nature of interest	Date of appointment as Director	Direct No. of shares	Direct %	Indirect No. of shares	Indirect %	Principal activities
	SBB Unit Trust Management Berhad	Director	April 29, 1995	—	—	—	—	Unit trust management
	SBB Mutual Berhad	Director	April 1, 2003	—	—	—	—	Mutual Fund
	Sunway International Vacation Club Berhad	Director	August 3, 2004	—	—	—	—	Time-sharing and related business
Datuk Leong Sonny alias Leong Khee Seong	Sin Chew Media Berhad	Deputy Chairman	September 1, 2004	—	—	—	—	Publishing, printing and distribution of newspapers
Fam Lee Ee	Tiong Nam Logistics Holdings Berhad	Independent Non-Executive Director	March 26, 2002	—	—	—	—	Logistics, transportation and warehousing
	M-Mode Berhad	Independent Non-Executive Director	September 13, 2004	—	—	—	—	Mobile media provider

Note:

Negligible

For details on the directorships and substantial shareholdings of Kamarudin Bin Meranun and Sami Ali A. Sindi in any other public corporation for the past two years preceding the date of this Offering Circular, see "The Promoter and Substantial Shareholders — Directorships and Substantial Shareholdings in All Other Public Corporations for the Past Two Years".

Save for John Francis Tierney and Sami Ali A. Sindi, none of the Directors have any interest, direct or indirect, in other businesses or corporations carrying on a similar trade as AirAsia.

The Board of Directors of the Company is of the view that the involvement of John Francis Tierney in America West Holdings Corporation ("America West") does not create a conflict of interest for the following reasons:

(a) America West provides passenger transport services to the American and Canadian markets and shall not be competing in the Group's market; and

(b) he is a non-executive Director of the Company and America West, and is not involved in the day-to-day management operations.

The Board of Directors is further of the view that the involvement of Sami Ali A. Sindi in Skywest Limited ("Skywest") does not create a conflict of interest for the following reasons:

(a) Skywest operates on short routes only in Western Australia, outside AirAsia's geographical coverage;

(b) Western Australia and in particular Perth itself is approximately six hours away from Kuala Lumpur, outside the economical flying range of the Group's Boeing 737 aircraft type;

(c) to the best of Mr. Sindi's knowledge, Skywest has no plans to conduct operations outside Australia; and

(d) Mr. Sindi's only interest in Skywest is an indirect shareholding via Crescent Venture Partners Ltd and Captive Vision Capital Ltd. Therefore, his interest in Skywest is removed and he is not in anyway involved in Skywest's day-to-day management.

None of the Executive Directors are involved full time in other private businesses.

Nomination Committee

This committee of Directors is composed exclusively of non-executive Directors, a majority of whom are independent. This committee is charged with the responsibility for proposing new nominees for the

Board of Directors as well as the Directors to fill the seats on board committees, and assessing Directors on an ongoing basis.

In particular, the Board of Directors through this committee would annually review the required mix of skills and experience and other qualities, including core competencies, which non-executive Directors should bring to the Board. The Nominations Committee is currently comprised of the following members:

Name	Position	Date of Appointment	Directorship
Dato' Pahamin bin Ab. Rajab	Member	October 8, 2004	Non-executive Director
Tan Sri Dato' (Dr) R.V. Navaratnam	Member	October 8, 2004	Independent non-executive Director
Fam Lee Ee	Member	October 8, 2004	Independent non-executive Director

Remuneration Committee

The Remuneration Committee is composed mainly of non-executive Directors. The principal responsibility of this committee is to recommend to the Board the remuneration of the executive Directors in all its forms, drawing from outside advice if necessary. The Remuneration Committee is currently comprised of the following members:

Name	Position	Date of Appointment	Directorship
John Francis Tierney	Member	October 8, 2004	Director
Mumtaz Khan	Member	October 8, 2004	Independent non-executive Director
Datuk Leong Sonny alias Leong Khee Seong	Member	October 8, 2004	Independent non-executive Director

Audit Committee

The Audit Committee is composed of three Directors, two of whom are independent. The duties of this committee include the following:

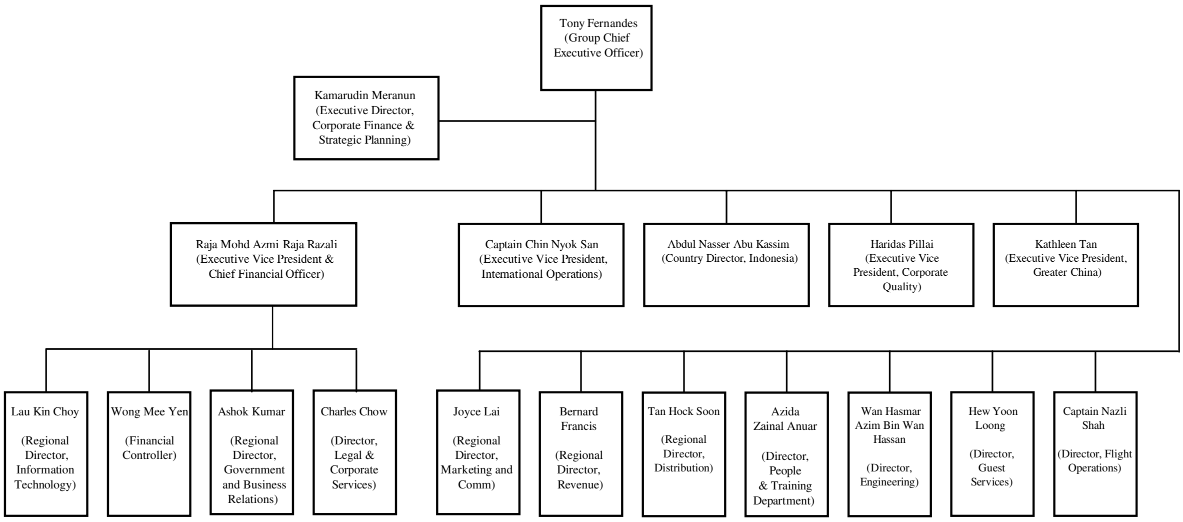
- to consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal;
- to discuss with the external auditor before the audit commences the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- to review the quarterly and year-end financial statements of the Company, focusing particularly on any changes in accounting policies and practices, significant adjustments arising from the audit, litigation that could affect results materially, the going concern assumption and compliance with accounting standards and other legal requirements;
- to discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of Management where necessary);
- to establish and review the Company's internal audit functions;
- to consider any related party transactions that may arise within the Group;
- to consider the major findings of internal investigations and Management's response; and
- to consider other topics as defined by the Board of Directors.

The Audit Committee is currently comprised of the following members:

Name	Position	Date of Appointment	Directorship
John Francis Tierney	Member	October 8, 2004	Non-executive Director
Fam Lee Ee	Member	October 8, 2004	Independent non-executive Director
Datuk Leong Sonny alias Leong Khee Seong	Member	October 8, 2004	Independent non-executive Director

Senior Management

The Company's senior managers are responsible for its day-to-day management and operations. The senior management consists of experienced airline operational personnel and personnel in charge of marketing, communications, finance and strategic management. The following chart shows the current internal organization structure of senior management:



The following table presents certain information regarding the Company's senior managers.

Name	Age	Designation
Tony Fernandes	40	Group Chief Executive Officer
Kamarudin bin Meranun	43	Executive Director, Corporate Finance and Strategic Planning
Raja Mohd Azmi bin Raja Razali	45	Executive Vice President and Chief Financial Officer
Captain Chin Nyok San	49	Executive Vice President, International Operations
Abdul Nasser Abu Kassim	48	Country Director, Indonesia
Haridas a/l Chellappan Pillai	58	Executive Vice President, Quality
Kathleen Tan Kim Lan	43	Executive Vice President, Greater China
Hew Yoon Loong	48	Director, Guest Services
Wan Hasmar Azim Bin Wan Hassan	37	Director, Engineering
Captain Nazli Shah Mohammad Sany	46	Director, Flight Operations
Bernard Francis	35	Regional Director, Revenue
Joyce Lai Lih Yin	33	Regional Director, Marketing and Communications
Tan Hock Soon	40	Regional Director, Distribution
Lau Kin Choy	43	Regional Director, Information Technology
Wong Mee Yen	38	Financial Controller
Ashok Kumar	58	Regional Director, Government and Business Relations
Charles Chow Chon Jin	49	Director, Legal and Corporate Services
Azida Zainal Anuar	32	Director, People & Training Department

Biographies of Senior Managers

The biographies of Tony Fernandes and Kamarudin bin Meranun are set out in "— Biographies of Directors".

Raja Mohd Azmi Bin Raja Razali has been Executive Vice President since June 2004 and Chief Financial Officer of the Company since December 2001. He has more than 20 years of experience in corporate and financial management, having worked with many international organizations and held various positions including Financial Analyst at Esso from 1983 to 1988, Chief Accountant at Philips Malaysia Bhd from 1989 to 1995, and Head of Finance and Human Resources at Eveready Battery from 1995 to 1996. Azmi joined Tune Air in October 2001 as the Chief Financial Officer. He studied at the London School of Accountancy, and received a Chartered Institute of Management Accountants qualification in 1982.

Captain Chin Nyok San has been Executive Vice President, International Operations of the Company since February 2004. Prior to this, he was the Head of Flight Operations of the Company from May 1996 to February 2004. He is trained as a pilot and has over 30 years' experience in the airline industry. Prior to joining the Company, he was a co-pilot for Wira Kris Schreiner from 1978 to 1979, management pilot, training captain, authorized examiner and line pilot for Malaysia Air Charter from 1979 to 1986) flight operations manager, chief pilot, training captain and authorized examiner for Pelangi Air from 1989 to 1993, and Chief Pilot for Mofaz Air Sdn Bhd from 1993 to 1996. He obtained his commercial pilot's license in 1976 from the DCA, and from Federal Aviation Authority in the USA in 1994. He also has an Air Transport Pilot's License in Malaysia, obtained from the DCA in 1985.

Abdul Nasser Abu Kassim has been Country Director, Indonesia since February 2004. He was Executive Director, Business Development of the Company from 2001 to 2003. Prior to joining the Company, he worked at Warner Music (Malaysia) Sdn Bhd from 1983 to 2001, where he held various key positions, including Artist & Repertoire Director from 1985 to 1988 and Executive Director from 1989 to 2001. He received a B.A. from School of Audio Engineering (Sydney) (SAE), Australia in 1980.

Haridas a/l Chellappan Pillai has been Executive Vice President, Corporate Quality of the Company since September 2004. Harridas is trained as a pilot and has almost 40 years of experience in the airline industry. After having served the air force as a pilot, he obtained his Certificate in Aeronautical Engineering from Air Services Training in Scotland. He holds various Aircraft Maintenance & Flight Engineer's licenses, has served Malaysia-Singapore Airlines and MAS for over 20 years and has more than 12,000 flying hours to his credit. From 1995 to 1997, Haridas was Head of Human Potential Development at the MAS Academy, and from 1997 to 2001, he was Flight Operations Manager at the MAS Flight Operations Division. He joined the Company as Senior Director of Operations and Quality Assurance in 2001. Haridas received an MBA from the University of Hull in the United Kingdom, and has attended the "Leadership in Senior Management Program" at Macquarie University, Australia.

Kathleen Tan Kim Lan has been Executive Vice President, Greater China of the Company since August 2004. Prior to joining the Company, she was Divisional Manager, Marketing Services for F.J. Benjamin from 1989 to 1994. She joined Warner Music Singapore as Sales and Marketing Manager in 1994, and was Regional Strategic Marketing Director of Warner Music Asia Pacific from 1995 to 1997 before becoming Managing Director of Warner Music Singapore from 1997 to 2004. Kathleen was also a Chairman and Board Member of the Recording Industry Association of Singapore from 1999 to 2000. Kathleen received a diploma in Sales and Marketing from the Marketing Institute of Singapore in 1990.

Hew Yoon Loong has been Regional Director, Guest Services of the Company since September 2004. Hew has more than 18 years' experience in companies such as Colgate Palmolive from 1981 to 1986, JW Thompson from 1987 to 1989, Foote, Cone and Belding Advertising Sdn Bhd from 1989 to 1984, and Bates Advertising from 1995 to 1999, where he was involved in brand development and strategic communications. Hew joined Tune Air in 2001 as Chief Marketing Officer, a position he continued in the Company until March 2004 when he became Director of Guest Services. Hew received a B.A. (Hons) in Finance and Accounting from North East London Polytechnic in 1981.

Wan Hasmar Azim Bin Wan Hassan has been Director, Engineering since March 2004. He has 15 years of experience in aircraft maintenance and planning as well as in the procurement of spares. From 1989 to 1996, Wan held various positions at MAS, where he was involved in the maintenance of Boeing 737-300 models, as well as setting up and operating line stations. Wan was seconded to Boeing where he oversaw the production of Boeing 737, 747 and 777 and Airbus A330 services aircraft from 1994 to 1995. Wan joined the Company in 1996, where he was Maintenance Manager until 2000 and Head of Engineering from 2000 to February 2004, when he was appointed Deputy Director of Operations — Engineering. Wan holds a certificate of approval from DCA and the Civil Aviation Authority of the United Kingdom in relation to certain Boeing airframe and engine systems.

Captain Nazli Shah Mohammad Sany has been Director, Flight Operations since March 2004. He has more than 22 years of experience in the airline industry, having worked as a pilot with the Royal

Malaysian Air Force from 1980 to 1992, Mofaz Air from 1994 to 1995, and Transmile Air Bhd from 1995 to 1997 before joining the Company as a pilot in 1997. He became Chief Pilot Training and Standards in 2002 until becoming Director of Flights Operations. Nazli graduated from the Armed Forces Cadet School in 1980 and is a Category B qualified flying instructor and a DCA-authorized examiner. He holds an Airline Pilot Transport License.

Bernard Francis has been Regional Director, Revenue of the Company since July 2004 and was previously a Senior Manager, Route Revenue of the Company from December 2003. Bernard specializes in the development of structured pricing strategies and profitable routes. Prior to joining the Company, Bernard worked with the YTL Group as part of their centralized project financing team from 1993 to 2001. He was also actively involved in both international and local mergers and acquisitions involving, among others, property development and power generation industries and cement manufacturing, and the establishment of YTL E-Solutions, the technology investment arm of the YTL Group. Bernard received an MBA in International Business from University Malaya in 2002 and a B.A. (Hons) (Second Class Upper) from National University of Malaysia in 1993.

Joyce Lai Lih Yin has been Regional Director, Marketing and Communications of the Company since July 2004 and joined as Senior Manager, Media in December 2001. She is experienced in the marketing industry, having previously held various key positions in Warner Music Malaysia from 1994 to 2000, including Group Product Manager and Strategic Marketing Manager from 1999 to 2000. She subsequently joined BMG Music Malaysia as Senior Marketing Manager in 2000 before becoming Marketing Director at BMG Music Malaysia from 2000 to 2001. Joyce received an ACCA Foundation level qualification from Stamford College, Selangor, Malaysia in 1991 and a Diploma of Public Relations from the Institute of Public Relations, Malaysia in 1992.

Tan Hock Soon has been Regional Director, Distributions of the Company since July 2004. Prior to joining the Company, he was Area Sales Manager at Procter & Gamble (M) Sdn Bhd from 1987 to 1991, Area Sales Manager at Cussons International (M) Sdn Bhd from 1991 to 1992 and Assistant Sales Manager at Bausch & Lombe (M) Sdn Bhd from 1992 to 1994. Hock Soon joined Warner Music Malaysia as Sales Manager in 1994, before becoming Sales Director in 1995 to 2004.

Lau Kin Choy has been Regional Director, Information Technology of the Company since July 2004 and was previously a Senior Manager and Chief Information Officer from August 2002. Prior to joining the Company, Lau was the General Manager of WEB Distribution Services Sdn Bhd, a joint-venture music distribution and logistic center for Warner Music, EMI Malaysia and BMG Music, where he was responsible for running systems, warehouse operations and sales collection, from 1998 to 2002. Lau also worked as IT and Operations Manager at Warner Music Malaysia from 1989 to 1997, and IT Operations Officer at OCBC Bank from 1981 to 1988. Lau received a diploma in NCC Computing in 1986 and a City and Guilds Certificate in Computing in 1984.

Wong Mee Yen has been Financial Controller of the Company since March 2004. She has more than 15 years of experience in finance and accounting, having worked as Group Financial Controller cum Company Secretary with Press Metal Bhd in Malaysia from 1992 to 1996, Regional Financial Controller with TV Media Pte Ltd in Singapore from 1996 to 1997, and Operations Director cum Company Secretary for MCS Microsystems Sdn Bhd from 1997 to 2001. Prior to joining the Company, Mee Yen worked as a consultant with SPM Holdings Sdn Bhd from 2002 to 2003. Mee Yen has been a director of Alubright Global Sdn Bhd since August 2003. Mee Yen is a Certified Public Accountant in Malaysia and a member of the Malaysian Institute of Accountants.

Ashok Kumar has been Regional Director, Government and Business Relations of the Company since October 2004. He has had 34 years experience in the airline industry, having worked at Malaysia-Singapore Airlines as Management Trainee/Marketing Executive from 1970 to 1972 and MAS from 1972 to 2003, where he held various key positions, including Assistant General Manager, Operations Planning, before joining the Company in 2003 as Senior Manager, Commercial Planning and Strategy. Ashok also served as Chairman of the IATA Schedule Coordination Conference in November 1993 for the coordination of Northern Summer 1994 schedules. Ashok received a Bachelor of Applied Economics (Hons) from the University of Malaya in 1970.

Charles Chow Chon Jin has been Director, Legal and Corporate Services of the Company since November 2002. Prior to joining the Company, he was a legal adviser at HSBC, Hong Kong, from 1987 to 1988, a legal associate at Messrs Mah Kok & Din from 1988 to 1991 and Group Legal Adviser at IOI

Berhad from 1992 to 1996. Charles received an LL.B (Hons) from the National University of Singapore in 1986 and a BA (Hons) from the University of Malaya in 1979.

Azida Zainal Anuar has been Director, People & Training Department of the Company since October 2004 December 2003. She trained as a medical doctor and, prior to joining the Company, worked as a Senior House Officer at National Health Service in the United Kingdom from 1998 to 2002. Azida joined the Company in April 2003 as Head of Training and became Manager, People and Training in December 2003. Azida received a Bachelor of Medical Sciences and a Bachelor of Medicine, Bachelor of Surgery from the University of Nottingham Medical School in the United Kingdom in 1995 and 1997, respectively, and a Diploma of the Royal College of Surgeons, Edinburgh (MRCSEd), Scotland in 2002. She was fully registered with the General Medical Council in the United Kingdom from August 1998 to August 2002.

Ownership of Senior Management

Other than the Options to be granted pursuant to the ESOS and allocation of Shares pursuant to the Initial Public Offering, no member of the senior management owns, directly or indirectly, any shares or option to purchase any shares in the Company.

Employment Contracts of Senior Managers

All of AirAsia's senior management have employment contracts for an unspecified term. None of these employment contracts are for a fixed term. All employment contracts with senior management contain confidentiality provisions.

Involvement of Senior Managers in Other Businesses or Corporations

Based on the declaration by the Group Chief Executive Officer, key management and key technical personnel of the Company and save as disclosed below, none of the key management and key technical personnel are involved in other businesses or public corporations for the past two years.

Tony Fernandes, was appointed a director of Tune Air on May 24, 2001 and has since then, been responsible for directing the financial and corporate strategies of the Tune Air group, including AirAsia. He attends all meetings of the board and contributes fully in his principal areas of responsibility. He is also a director of Tuneasia.com Sdn Bhd ("Tuneasia") which principally carries out information technology development. He is not involved in the day-to-day operations of Tune Air and Tuneasia.

Kamarudin Bin Meranun, holds directorships in a number of private and public companies. For information on his directorships in other public corporations for the past two years. See "The Promoter and Substantial Shareholders — Directorships and substantial shareholdings in all other public corporations for the past two years". He does not work full time in his other private and public businesses and is not involved in their day-to-day operations.

Captain Chin Nyok San, was appointed to the board of Pacific Data System Sdn Bhd ("PDS") on June 18, 1987. PDS is principally involved in designing, trading and distribution of computer related peripherals and software. He is not involved in the day-to-day operations of PDS.

Wong Mee Yen, was appointed to the board of Alubright Global Sdn Bhd ("Alubright") on August 1, 2003. Alubright is principally involved in trading of aluminium related products. She is not involved in the day-to-day operations of Alubright.

Remuneration of Directors and the Group Chief Executive Officer, Executive Director, Corporate Finance and Strategic Planning, Executive Vice President and Chief Financial Officer, Executive Vice President, International Operations and Country Director Indonesia

The aggregate remuneration and benefits paid and proposed to be paid to the Group Chief Executive Officer, Executive Director, Corporate Finance and Strategic Planning, Executive Vice President and Chief Financial Officer, Executive Vice President, International Operations and Country Director, Indonesia was approximately RM3.6 million for the financial year ended June 30, 2004 and estimated at RM3.9 million for the financial year ending June 30, 2005.

The aggregate remuneration and benefits paid and proposed to be paid to the Directors and alternate Directors for services rendered to the Company in all capacities was approximately RM2.8 million for the year ended June 30, 2004 and estimated at RM3.0 million for the year ending June 30, 2005.

The remuneration of the Directors is approved by the Board and the shareholders of the Company, following recommendations made by the Remuneration Committee.

The remuneration band of the Directors and CEO of the Company is as follows:

	For financial year ended/ending June 30,	
	2004 (Actual)	2005 (Forecast)
Remuneration band:	Number of Directors and CEO	Number of Directors and CEO
Below RM500,000	3	8
RM500,001 to RM1.5 million	1	2

The four Directors who are foreign nationals have not drawn any remuneration from their respective dates of appointment.

Save as disclosed in this Offering Circular, none of the Directors of the Company has any interest, direct or indirect (i) in the promotion of, or in any material assets which have been, within the two years preceding the date of this Offering Circular, acquired or disposed of by or leased to or proposed to be acquired, disposed of by or leased to AirAsia, or (ii) in any contract or arrangement which is material in relation to the business of the Company or AirAsia subsisting as at September 30, 2004.

Other Matters

Each of the Directors and alternate Directors and senior management of the Company has confirmed to the Company that he/she is not and has not been involved in any of the following events:

(i) a petition under any bankruptcy or insolvency laws being filed (and not struck out) against such person or any partnership in which he was a partner or any company of which he was a director or key personnel;

(ii) a conviction in a criminal proceedings or is a named subject of a pending criminal proceedings; and

(iii) the subject of any order, judgment or ruling of any court of competent jurisdiction, tribunal or government body permanently or temporally enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.

Employees' Share Option Scheme

On June 7, 2004, the Company implemented a share option scheme for employees and Directors of the Company called the "AirAsia Share Option Scheme I" ("ESOS"). The ESOS stated objectives are as follows:

- reward eligible persons in recognition of their stewardship and vital contributions to the operations and continued growth of AirAsia;
- give eligible persons the opportunity of equity of ownership so that they are further motivated towards better performance through greater productivity and loyalty;
- provide an opportunity for eligible persons to participate directly in AirAsia's prospects and future growth as shareholders through direct equity participation in the Company; and
- provide an incentive for eligible persons to participate actively in the operations of the AirAsia and encourage them to contribute to the well-being of AirAsia.

Other salient terms of the ESOS are as follows:

- the duration of the ESOS shall be five years, subject to extension or earlier determination in accordance with the by-laws of the ESOS;
- the ESOS allows for the granting of options to subscribe for shares in the Company of up to 5.0% of the issued and paid-up share capital of the Company at any point in time in the duration of the ESOS;
- the ESOS shall be administered by an Option Committee, who has among others discretion to decide the eligibility criteria and bases of allotment; and

- the subscription price, in respect of options granted prior to the date of listing of the Company on Bursa Securities, is RM1.08. Thereafter, it shall be determined in accordance with the provisions of the Listing Requirements of the Bursa Securities.

The Company established the ESOS to grant Options to the employees and Directors of AirAsia, wherein the maximum number of Shares to be offered under the scheme shall not exceed 10% of the issued and paid-up share capital of the Company at any point in time. As at the date of this Offering Circular, the Company has offered 93,240,000 Options, representing approximately 4.0% of the enlarged issued and paid-up share capital of the Company after the Initial Public Offering. For a substantial majority of the employees, the Options, when accepted, shall become exercisable on a staggered basis commencing September 1, 2005, at an exercise price of RM1.08 per Share.

The exercise price in respect of the remaining Options which may be granted after the date of Listing shall be the higher of the following:

(a) at a discount of not more than 10% (or such other pricing mechanism as may be permitted from time to time by Bursa Securities or any other relevant regulatory authority) of the weighted average market price of the Shares for the five Market Days immediately preceding the date of offer; or

(b) the par value of the Shares.

For illustrative purposes only, assuming up to 233,503,108 Options are granted under the ESOS (being 10% of the enlarged issued and paid-up share capital of the Company upon the completion of the Initial Public Offering of 2,335,031,080 Shares) after the Initial Public Offering, and are fully exercised by the option holders, the issued and paid-up share capital of the Company will increase to RM256,853,418 comprising 2,568,534,188 Shares.

The Shares to be allotted and issued upon any valid exercise of Options will, upon such allotment and issuance, rank pari passu in all respects with the then existing and issued Shares except that such Shares so issued will not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to shareholders prior to the date of allotment of such Shares. The Options shall not carry any right to vote at a general meeting of the Company.

Family Relationships or Associations Between Substantial Shareholders, Promoters, Directors and Key Management and Key Technical Personnel of the Company

Save as disclosed below, there are no relationships/associations between the substantial shareholders, the Promoters, Directors and senior management of the Company.

Dato' Pahamin bin Ab. Rajab, Abdel Aziz alias Abdul Aziz Bin Abu Bakar, Kamarudin Bin Meranun, Tony Fernandes and Conor Mc Carthy are directors of Tune Air, while Sami Ali A. Sindi, Mumtaz Khan and John Francis Tierney are directors of CAAL, IDBIF and DCL respectively. See "Share Ownership".

DESCRIPTION OF MATERIAL INDEBTEDNESS AND CREDIT FACILITIES

The following is a summary only of the principal terms of AirAsia's material indebtedness. Refer to the financial statements and the notes thereto elsewhere in this Offering Circular for additional information with respect to AirAsia's indebtedness.

As at June 30, 2004, AirAsia's total debt consisted of approximately RM95.5 million.

Material Indebtedness

The Company's RM50 Million Revolving Credit Facility from Public Bank Berhad

On February 28, 2004, Public Bank Berhad ("PBB") provided a RM50 million revolving facility to the Company, secured by two standby letters of credits from DBS, the value of which covers the total indebtedness. The purpose of the facility is to partially finance the acquisition and refurbishment cost of two Boeing 737-300 aircraft. Each facility drawn shall be repaid within one month or rolled over for another month but not exceeding the termination date which is the date falling one year after the date of the first drawdown. A commitment fee of 1% per annum is payable on any available undrawn amounts. The interest rate applicable for this loan is 0.30% per annum plus PBB's cost of funds or PBB's base lending rate.

Covenants include a prohibition against a change in the Company's shareholders without PBB's prior written consent. The facility does not contain any financial covenants.

The facility does not contain any customary default provisions that permit PBB to accelerate amounts due under the loan or to terminate its commitment. However, PBB is entitled to call for immediate repayment at any time on demand.

As at June 30, 2004, RM47,728,000 remained outstanding. AirAsia intends to repay this credit facility in full using proceeds from the issue of the Issue Shares and existing cash balances.

The Company's RM50 Million Term Loan Facility from Southern Bank Berhad

On January 27, 2004, Southern Bank Berhad ("SBB") provided a term loan facility of up to a maximum aggregate principal sum of RM50 million to the Company, secured by a first fixed charge and mortgage over the two aircraft for which the loan was undertaken, and assignment of the insurance relating to such aircraft. The purpose of the loan is to finance the purchase and refurbishment of two aircraft from AFS Investments XLIII LLC. The loan shall be repaid in full in one single repayment on demand by SBB or, in the absence of such demand, the earlier of two years from the first drawdown or December 31, 2006. The interest rate applicable for this loan is 1.5% per annum above SBB's cost of funds.

Covenants include a prohibition against any change that would affect Tune Air's existing majority shareholding in the Company and Tony Fernandes' and Conor Mc Carthy's respective existing shareholdings in Tune Air, any change in the existing directors and management of the Company and any reduction of the authorized or issued share capital in the Company. The loan also contains financial covenants that require the Company to maintain the following specified ratios:

- the aggregate of amounts paid up or credited as paid up on the issued share capital of the Company and amounts standing of the credit of the reserves of the Company as recorded in its most recent audited financial statements ("Net Worth") shall not be less than RM100,000,000;
- the aggregate amount of all obligations of the Company for or in respect of indebtedness and the present value of non-cancelable commitments under operating losses (using a discount rate of 8% per annum) less cash and fixed deposits shall not exceed a multiple of 1.75 times of its Net Worth; and
- EBITDAR to debt service ratio (principal plus interest and operating lease obligations) shall not be less than 1.5 times.

The loan contains a number of negative covenants that restrict the Company from taking certain actions without SBB's approval, including any amendment or variation of its constitutional documents, the creation of any additional indebtedness, except for permitted capital expenditure of an amount not exceeding U.S.$6 million per annum and the financing of two aircraft to be obtained from DBS, and the distribution of capital or declaration of any dividend. Events of default include a default in payment, liquidation or winding up process, cross default of RM380,000 or U.S.$100,000, material adverse change in operation or financial situation and change in the Company's Directors, management control or shareholding structure.

As at June 30, 2004, RM47,728,000 remained outstanding. AirAsia intends to repay this loan facility in full using proceeds from the issue of the Issue Shares and existing cash balances.

Other Material Credit Facilities

The Company's RM50 Million Standby Letter of Credit Facility from DBS Bank Limited

The facility agreement with DBS, was entered into on March 26, 2004 pursuant to which DBS provided the Company standby letters of credit for the lower amount of RM50 million or 80% of the total market value of two aircraft acquired from AFS Investments XLIII LLC, USA. This facility was granted to guarantee the revolving credit facility granted by PBB, as well as finance the acquisition and refurbishment costs of the two aircraft acquired from AFS Investments XLIII LLC, USA. The facility is secured by a mortgage and fixed charge over the two aircraft, together with an assignment of insurance. Interest payable shall be computed at the rate of 3% plus 1 month Singapore Inter-Bank Offer Rate for US dollars. An upfront fee of 0.3% is payable is payable in addition to the commitment fee of 1% per annum. Commission shall be charged at 1.5% per annum. The Company is also required to open a Singapore Dollars operating account with DBS.

Covenants include that Tune Air continue to be a major shareholder in the Company and that the existing Directors and management members remain unchanged. Negative covenants include prohibition against any distribution of capital and/or declaration of dividends in the Company.

As at June 30, 2004, two standby letters of credit aggregating RM47,728,000 were issued to PBB under this facility.

The Company's RM10 Million Standby Letter of Credit Facility from Bumiputra-Commerce Bank Berhad

On October 30, 2002, Bumiputra-Commerce Bank Berhad ("BCBB") provided a RM10 million standby letter of credit facility to the Company, secured by a deposit of 50% of the aggregate principal limit of the facility placed with BCBB and a joint and several guarantee from four of the Company's Directors. The purpose of the facility is to guarantee payment of aircraft leasing expenses, purchases of spare parts, maintenance and fuel contracts and any other operational requirements acceptable to BCBB. A commission of 1.5% per annum is payable on the value of each standby letter of credit issued under this facility. In the event of any claim being made under a standby letter of credit issued under this facility, BCBB is entitled to immediate settlement of the amount outstanding. The interest rate applicable for any amount outstanding is 3.5% per annum above BCBB's base lending rate. The commission and interest rates may be varied from time to time at BCBB's discretion.

Covenants include an obligation for the Company to provide audited financial statements within six months from the end of each financial period and any other information as reasonably requested.

As at August 9, 2004, a standby letter of credit for RM971,290 were issued to Air Rotables Limited, United Kingdom under this facility.

The Company's RM16 Million Standby Letter of Credit Facility from Bumiputra-Commerce Bank Berhad

On July 17, 2003, BCBB provided a RM16 million standby letter of credit facility to the Company, secured by a deposit of 50% of the aggregate principal limit of the facility placed with BCBB. The purpose of the facility is to guarantee payment aircraft leasing expenses, purchases of spare parts, maintenance and fuel contracts and any other operational requirements acceptable to BCBB. A commission of 1.5% per annum is payable on the value of each standby letter of credit issued under this facility. BCBB is entitled to immediate settlement of the amount outstanding in the event that a claim is made under a standby letter of credit issued under this facility. The interest rate applicable for any amount outstanding is 3.5% per annum above BCBB's base lending rate or any other rates prescribed by BCBB from time to time.

Covenants include a prohibition against entry into any partnership, profit sharing or royalty agreement or other similar arrangement whereby AirAsia's income or profits are or might be shared with any other person, firm or company or entry into any management contract whereby the business or operations of

AirAsia would be managed by any other person, firm or company, or any variation or amendment to AirAsia's constitutional documents, and/or the alteration of its authorized share capital.

The facility contains a number of additional negative covenants that restrict the Company from taking certain actions without BCBB's written consent, including the creation of any security interest over any part of its business or assets, the entry into any transaction, except in the ordinary course of business, resulting in the Company paying more than the ordinary commercial price, and the sale or transfer of the Company's undertakings, business or assets, except by the disposal of assets in the ordinary course of business. Events of default include breach of any covenant, misrepresentation, appointment of a receiver or a liquidator, material adverse change in business, assets, financial position, commencement of insolvency proceedings, cessation of business operations and failure by the Company to make payment of any other indebtedness owed by it.

The loan contains customary default provisions that permit BCBB to accelerate amounts due under the facility or to terminate its commitment.

As at August 9, 2004, two standby letters of credit aggregating RM11,628,000 was issued to ST Aero and J.Aron & Company (Singapore) Pte under this facility.

SHARE OWNERSHIP

The following table presents information regarding the beneficial ownership of the ordinary shares of the Company before and after the Initial Public Offering of (i) each person known to the Company to be an owner or record of or beneficially own more than 5% of the Ordinary Shares (as at the date of this Offering Circular) (the "Substantial Shareholders"); (ii) each director and executive officer of the Company; and (iii) all directors and officers of as a group.

	Ordinary Shares			
Name of beneficial owner	Number of ordinary shares beneficially owned before the Initial Public Offering	Percentage of issued ordinary shares before the Initial Public Offering (%)	Number of ordinary shares beneficially owned after the Initial Public Offering	Percentage of issued ordinary shares after the Initial Public Offering (%)
Tune Air	1,131,673,080	64.6	1,045,344,650	44.8
CAAL(1)	157,614,590	9.0	147,083,490	6.3
IDBIF(2)	122,589,130	7.0	110,887,910	4.7
IDB Infrastructure Fund L.P.(2)	122,589,130	7.0	110,887,910	4.7
Maples & Calder(3)	96,320,030	5.5	88,129,180	3.8
DCL(3)	96,320,030	5.5	88,129,180	3.8
Crescent Air Asia Investments II, Ltd(4)	78,807,300	4.5	78,807,300	3.4
Lembaga Tabung Haji	43,781,830	2.5	43,781,830	1.9
Dato' Pahamin Bin Ab Rajab(5)	90,533,856	5.2	83,727,582	3.6
Tony Fernandes(6)	463,985,973	26.6	428,666,317	18.4
Kamarudin Bin Meranun(7)	384,768,847	22.0	355,492,181	15.2
Sami Ali A. Sindi(1)(4)	236,421,890	13.5	225,900,790	9.7
Mumtaz Khan	—	0.0	—	0.0
John Francis Tierney	—	0.0	100,000	0.0
Conor Mc Carthy(8)	79,217,116	4.5	73,184,126	3.1
Tan Sri Dato' (Dr) R.V. Navaratnam	—	0.0	100,000	0.0
Datuk Leong Sonny alias Leong Khee Seong	—	0.0	100,000	0.0
Fam Lee Ee	—	0.0	100,000	0.0
Abdel Aziz alias Abdul Aziz Bin Abu Bakar(9)	113,167,308	6.5	104,634,465	4.5
Richard Todd Scanlon	—	0.0	100,000	0.0
Adeeb Ahmad	—	0.0	—	0.0
Brian Douglas Courtney	—	0.0	—	0.0
Raja Mohd Azmi bin Raja Razali	113,832,770	6.5	113,892,770	4.9
Captain Chin Nyok San	—	0.0	60,000	0.0
Abdul Nasser Kassim	—	0.0	60,000	0.0
Haridas a/l Chellappan Pillai	—	0.0	60,000	0.0
Kathleen Tan Kim Lan	—	0.0	60,000	0.0
Hew Yoon Loong	—	0.0	60,000	0.0
Wan Hasmar Azim Bin Wan Hassan	—	0.0	60,000	0.0
Captain Nazli Shah Mohammad Sany	—	0.0	60,000	0.0
Bernard Francis	—	0.0	60,000	0.0
Joyce Lai Lih Yin	—	0.0	60,000	0.0
Lau Kin Choy	—	0.0	60,000	0.0
Wong Mee Yen	—	0.0	60,000	0.0
Ashok Kumar	—	0.0	52,500	0.0

	Ordinary Shares			
Name of beneficial owner	Number of ordinary shares beneficially owned before the Initial Public Offering	Percentage of issued ordinary shares before the Initial Public Offering (%)	Number of ordinary shares beneficially owned after the Initial Public Offering	Percentage of issued ordinary shares after the Initial Public Offering (%)
Tan Hock Soon	—	0.0	60,000	0.0
Charles Chow Chon Jin	—	0.0	52,500	0.0
Azida Zainal Anuar	—	0.0	60,000	0.0
All directors and officers as a group . .	1,481,927,760	84.6	1,386,883,231	59.4

Notes:

(1) Sami Ali A. Sindi wholly owns Crescent Control Company Ltd, which in turn wholly owns CAAL

(2) IDBIF is a wholly-owned subsidiary of IDB Infrastructure Fund L.P.

(3) DCL is a wholly-owned subsidiary of Maples Finance limited. Maples Finance Limited is a wholly owned subsidiary of Calamp (No. 2) Limited, which in turn is wholly-owned by Maples & Calder

(4) Sami Ali A. Sindi wholly owns Crescent Venture Partners Ltd, which in turn wholly owns Crescent Air Asia Investments II, Ltd

(5) Dato' Pahamin Bin Ab. Rajab owns 8.0% of Tune Air. He also holds 10 Shares directly in AirAsia

(6) Tony Fernandes owns 41.0% of Tune Air. He also holds 10 Shares directly in AirAsia

(7) Kamarudin Bin Meranun owns 34.0% of Tune Air

(8) Conor Mc Carthy owns 7.0% of Tune Air

(9) Abdel Aziz alias Abdul Aziz Bin Abu Bakar owns 10.0% of Tune Air

SHARES ELIGIBLE FOR FUTURE SALE

The Company and substantially all of its shareholders (including the Selling Shareholders) will undertake not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any ordinary shares in the Company or securities convertible or exchangeable into or exercisable for the Shares, or enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such aforementioned transaction is to be settled by delivery of the Shares or such other shares, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or enter into any such transaction, swap, hedge or other arrangement or make an announcement relating thereto without, in each case, the prior written consent of the Sole Bookrunner and Sole Lead Manager, RHB Sakura and ECM Libra for a period commencing from the date of the lock-up agreement until 180 days after the Listing Date.

Any Shares acquired by the above shareholders of the Company in the open market will not be subject to the lock-up agreement. A transfer of Shares by such shareholders to a family member or trust of such shareholders may be made, provided the transferee agrees to be bound in writing by the terms of the lock-up agreement prior to such transfer and such transfer shall not involve a disposition for value.

Notwithstanding the preceding restrictions on disposal, the restrictions do not apply:

(a) (i) to the grant of options by the Company and issue of shares consequent thereto pursuant to the By-laws of the ESOS (details of which are set out in "Management — Employees' Share Option Scheme") or (ii) when the shareholdings of foreign interests in the Company come within 5.0% of the prescribed limit of 45.0% and the Directors, having regard to prevailing circumstances, are of the opinion that the Company's route rights may be compromised, in which case the Directors may immediately undertake a restricted issue and/or placement of new shares or securities upon such terms as they deem fit and in the best interest of the Company, in order to protect those route rights;

(b) to the 11,384,000 Shares delivered to RHB Sakura by Raja Mohd Azmi bin Raja Razali, the Company's Executive Vice President and Chief Financial Officer, upon the Listing Date; and

(c) with respect to the 78,807,300 Shares held by Crescent Air Investments II, Ltd., one third of which may be disposed of by Crescent Air Asia Investments II, Ltd. at or after each of 60, 120 and 180 days after the Listing Date with the prior written consent of the Sole Bookrunner and Sole Lead Manager, which consent shall not be unreasonably withheld.

Lembaga Tabung Haji, which will beneficially own 43,781,830 ordinary shares representing 1.9% of the Company's enlarged share capital after the completion of the Initial Public Offering, is not subject to any restriction on the disposal of such ordinary shares.

If the Company's shareholders sell, or are perceived as intending to sell, substantial numbers of Shares in the public market following the 180-day period, the market price of the Shares could fall.

After the issuance of 583,757,800 Issue Shares pursuant to the Initial Public Offering, the Company will have an enlarged share capital of 2,335,031,080 issued and paid-up Shares. All of these Shares will otherwise be freely tradable on the Main Board of Bursa Securities. It is also possible that the Company may issue additional shares after the 180-day period has elapsed following the date of commencement of trading on Bursa Securities in connection with financing activities, acquisition activities or otherwise. Any ordinary share that the Company issues will also be freely tradable on the Main Board of Bursa Securities.

Moratorium on Shares

Pursuant to Clause 6.24 of the SC Guidelines and as a condition of the SC's approval for the Listing, the shareholders set out below will not be allowed to sell, transfer or assign, 1,050,763,986 Shares, representing 45%, of the enlarged issued and paid-up share capital of the Company after the Initial Public Offering for one year from the date of admission of the Company to the Main Board of Bursa Securities.

Details of the shareholders of the Company who will be subject to moratorium, as approved by the SC, are as follows:

	Shares held after the Initial Public Offering		Shares under moratorium	
Shareholder	Number of Shares	Percentage of enlarged share capital(1)	Number of Shares	Percentage of enlarged share capital(1)
Tune Air	1,045,344,650	44.8	788,917,306	33.8
IDBIF	110,887,910	4.7	85,252,410	3.6
CAAL	147,083,490	6.3	109,610,235	4.7
DCL	88,129,180	3.8	66,984,035	2.9
Total	1,391,445,230	59.6	1,050,763,986	45.0

Note:

Enlarged share capital excludes the number of shares to be issued pursuant to the exercise of Options pursuant to the ESOS

The moratorium, which has been fully accepted by the aforesaid shareholders, is specifically endorsed on the share certificates representing the shareholding of the aforesaid shareholders, which are under moratorium to ensure that the Company's registrar does not register any transfer not in compliance with the restriction imposed by SC and Bursa Securities.

The statement to be endorsed on these share certificates are as follows:

> "The shares comprised herein are not capable of being sold, transferred or assigned for a period as determined by the Securities Commission ("Moratorium Period"). Accordingly, the shares comprised herein will not constitute good delivery pursuant to the Rules of the Bursa Malaysia Securities Berhad during the Moratorium Period. No share certificate or certificate will be issued to replace this certificate during the Moratorium Period unless the same shall be endorsed with this restriction."

Pursuant to the SC Guidelines, where the affected shareholder is an unlisted company, every shareholder of the unlisted company (if an individual) or ultimate individual shareholder (if the shareholder of the unlisted company is another unlisted company) must give an undertaking that he/she will not sell, transfer or assign his/her shareholding in the related unlisted company during the Moratorium Period as stated above. Accordingly, the above mentioned moratorium shall also apply to the respective ultimate shareholders of Tune Air, IDBIF, CAAL and DCL.

DESCRIPTION OF SHARE CAPITAL

There is only one class of shares in the Company, being ordinary shares of RM0.10 each, details of which are as follows:

	RM
Authorized	
5,000,000,000 ordinary shares of RM0.10 each	500,000,000
Issued and fully paid-up as at the date of this Offering Circular	
1,751,273,280 ordinary shares of RM0.10 each	175,127,328
To be issued pursuant to the Initial Public Offering	
583,757,800 ordinary shares of RM0.10 each	58,375,780
Enlarged and fully paid-up upon Listing	
2,335,031,080 ordinary shares of RM0.10 each	233,503,108

The Company established the ESOS to grant Options to the employees and Directors of AirAsia, wherein the maximum number of Shares to be offered under the scheme shall not exceed 10% of the issued and paid-up share capital of the Company at any point in time. As at the date of this Offering Circular, the Company has offered 93,240,000 Options, representing approximately 4.0% of the enlarged issued and paid-up share capital of the Company after the Initial Public Offering. For a substantial majority of the employees, the Options, when accepted, shall become exercisable on a staggered basis commencing September 1, 2005, at an exercise price of RM1.08 per Share.

The exercise price in respect of the remaining Options which may be granted after the date of Listing shall be the higher of the following:

(a) at a discount of not more than 10% (or such other pricing mechanism as may be permitted from time to time by Bursa Securities or any other relevant regulatory authority) of the weighted average market price of the Shares for the five Market Days immediately preceding the date of offer; or

(b) the par value of the Shares.

For illustrative purpose only, assuming up to 233,503,108 Options are granted under the ESOS (being 10% of the enlarged issued and paid-up share capital of the Company upon the completion of the Initial Public Offering of 2,335,031,080 Shares) after the Initial Public Offering, and are fully exercised by the option holders, the issued and paid-up share capital of the Company will increase to RM256,853,418 comprising 2,568,534,188 Shares.

The Shares to be allotted and issued upon any valid exercise of Options will, upon such allotment and issuance, rank pari passu in all respects with the then existing and issued Shares except that such Shares so issued will not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to shareholders prior to the date of allotment of such Shares. The Options shall not carry any right to vote at a general meeting of the Company.

At any general meeting of the Company, each shareholder shall be entitled to vote in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder, shall have one vote, and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorized representative shall have one vote for each Share held by them. A proxy may, but need not be, a member of the Company. However, there are instances wherein the voting rights can be disenfranchised. See "Risk Factors — Risks Relating to the Shares — The Company is required to comply with restrictions on foreign ownership of its Shares, which may affect the voting rights, liquidity and market price of the Shares".

Subject to any special rights attaching to any shares that may be issued by the Company in the future, the shareholders of the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole or any surplus in the event of liquidation of the Company in accordance with the Articles of Association of the Company.

The Issue Shares will rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company and will be entitled to all rights and dividends and distributions that may be declared subsequent to the date of this Offering Circular.

The following description of the ordinary shares is a summary of the material terms of, and should be read with, the Company's Memorandum and Articles of Association. It is also a summary of certain material rights and restrictions based on applicable provisions of Malaysian law. A copy of the Company's Memorandum and Articles of Association is available for inspection at the Registered Office of the Company. This summary is not intended to be complete or to constitute a definitive statement of the rights and liabilities of the Company's shareholders and is qualified in its entirety by reference to the Company's Memorandum and Articles of Association and Malaysian law.

General

There are no founder, management or deferred shares in the Company. There is only one class of shares in the Company, namely ordinary shares of nominal value of RM0.10 each.

Save as disclosed in "Description of Share Capital", no shares, stocks or debentures of the Company or its subsidiaries have been issued or are proposed to be issued as fully or partly paid-up in cash or otherwise, within the two years preceding June 4, 2004.

Save as disclosed in "Description of Share Capital", no person including Directors or employees of AirAsia has been or is entitled to be given an option to subscribe for any shares, stocks or debentures of the Company or its subsidiaries nor has any options to subscribe for securities been granted or exercised by any Directors or employees during the last financial year.

Voting Rights

Subject to any rights or restrictions attached to any shares, on a show of hands, every member or holder of any class of shares, who has paid up all calls and other moneys payable in respect of that share, in the Company who:

(a) being an individual, is present in person or by proxy or attorney; or

(b) being a corporation, is present by a duly authorized representative or by proxy or attorney;

shall have one vote, and on a poll every member shall have one vote for every share of which he is the holder.

The prescribed limit for Shares which may be held by foreigners (as defined in the Articles of Association of the Company) shall be the aggregate of 45% of the total issued and paid up share capital of the Company or such other limit as may be prescribed from time to time by any written law or from time to time in force or by the rules, guidelines or directives issued by the relevant authorities. When it is determined that the prescribed limit has been exceeded, the voting rights attached to such excess shares held by foreigners shall be disenfranchised and such voting rights shall be vested in the chairman for the time being of the general meeting.

Modification of Rights

If at any time the share capital is divided into different classes of shares, subject to Sections 55 and 65 of the Companies Act, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated with:

(a) the consent in writing of the holders of 75% of the issued shares of that class; or

(b) the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

Issue of Shares

Subject to the Companies Act and the Articles of Association of the Company, the Directors may offer, issue, allot (with or without conferring a right of renunciation), grant options over, grant any right or rights to subscribe for such shares or any right or rights to convert any security into such shares, or otherwise deal with or dispose of any unissued shares of the Company (whether forming part of the original or any increased capital) to such persons at such times and on such terms and conditions as they may determine.

Such an offer, issuance, allotment, granting of options over shares, granting of any right or right to subscribe or to convert any security into shares or otherwise deal with or dispose of shares shall be subject to the following provisions:

(a) the Company shall not offer, issue, allot, grant options over shares, grant any right or right to subscribe for shares or any right or rights to convert any security into shares or otherwise deal with or dispose of shares which will or may have the effect of transferring a controlling interest in or management control of the Company without the prior approval of the members in general meeting;

(b) no Director shall participate in an issue of shares to employees or otherwise unless the members in general meeting have approved the specific allotment to such Director;

(c) no shares shall be issued at a discount except in accordance with Section 59 of the Companies Act;

(d) the total nominal value of issued preference shares shall not exceed the total nominal value of the issued ordinary shares at any time; and

(e) the rights attaching to shares of a class other than ordinary shares shall be expressed in the resolution creating them.

Dividends

The Company in general meeting may by ordinary resolution declare dividends payable to the members in accordance with their respective rights and priorities out of any lawful profits of the Company available for distribution, but no dividend shall exceed the amount recommended by the Directors. Unless otherwise provided by the rights attached to shares or the terms of their issue, all dividends shall be declared and paid in proportion to the capital paid up on the shares on which the dividend is paid, but if any shares are issued on terms providing that they shall rank for dividend as from a specified date or to a specified extent, they shall rank for such dividend accordingly.

Subject to the Companies Act, the Directors may pay interim dividends if it appears to them that they are justified by the profits of the Company available for distribution. If the share capital is divided into different classes, the Directors may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear. The Directors may also pay at intervals settled by them any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment. Provided the Directors act in good faith they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

Any dividend or interim dividend may be expressed to be payable on a specified date to persons registered on some earlier date as the holders of the shares in respect of which the dividend is declared, notwithstanding that such persons may not be so registered on the date of the declaration or payment.

Winding Up

Unless otherwise provided by the rights attached to shares or the terms of their issue, on a winding up of the Company, the balance of the assets available for distribution among the members shall be applied in repaying to the members the amounts paid up on the shares held by them and any surplus assets will belong to the holders of any issued ordinary shares according to the respective numbers of shares held by them or, if there are no issued ordinary shares, to the holders of any issued unclassified shares according to the respective numbers of shares held by them.

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide among the members in *specie* the whole or any part of the assets of the Company (whether they consist of property of the same kind or not) and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he, with the like sanction, determines, but no member shall be compelled to accept any assets on which there is a liability.

On the voluntary liquidation of the Company, no commission or fee shall be paid to a liquidator unless the shareholders have approved it. The amount of such payment shall be notified to all shareholders at least seven days prior to the meeting at which the commission or fee is to be considered.

Calls

Subject to the terms of allotment of the shares, the Directors may from time to time make calls on the members in respect of any amounts unpaid on their shares, and each member shall (subject to receiving at least fourteen clear days' notice specifying the time or times and the place or places of payment) pay to the Company at the time or times and the place or places so specified the amount called on his shares.

If a call is not paid before or on the day appointed for payment, the person from whom the amount is due shall pay interest on the amount unpaid at the rate of 10% per year from the day appointed for the payment to the time of the actual payment but the Directors shall be at liberty to waive payment of such interest wholly or in part.

Acquisition of Own Shares

Subject to the provision of the Companies Act, the requirements of the Bursa Securities and/or any other relevant authorities, the Company may from time to time acquire by purchase in good faith and in the best interests of the Company, the Company's own shares through Bursa Securities and any other stock exchange on which the shares are quoted.

Deposited Securities and Rights of Depositors

Notwithstanding the provisions contained in the Articles of Association of the Company, the Shares have been prescribed as a Prescribed Security and shall be deposited with the BMD pursuant to the Securities Industry (Central Depositories) Act 1991, and a depositor whose name appears in the record of depositors maintained by the BMD shall be deemed to be a member, interest holder or option holder, as the case may be, of the Company and shall subject to the Securities Industry (Central Depositories) Act 1991, the Rules of the Central Depository and the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and all modifications and amendments for the time being in force, be entitled to the number of securities stated in the record of depositors and all rights, benefits, powers and privileges and be subject to all liabilities, duties and obligations in respect of, or arising from, such securities (whether conferred or imposed by the Companies Act or the Memorandum or Articles of Association of the Company).

THE PROMOTER AND SUBSTANTIAL SHAREHOLDERS

The following table presents certain information regarding the beneficial ownership of the Shares before and after the Initial Public Offering of the Promoters of AirAsia.

Name	Nationality/Country of Incorporation	Ordinary shares beneficially owned prior to the Offering				Ordinary shares beneficially owned after the Offering			
		Direct	%	Indirect	%	Direct	%	Indirect	%
Tune Air	Malaysia	1,131,673,080	64.6	—	—	1,045,344,650	44.8	—	—
IDBIF	Labuan	122,589,130	7.0	—	—	110,887,910	4.7	—	—
CAAL	Cayman Islands British West Indies	157,614,590	9.0			147,083,490	6.3		
DCL	Cayman Islands British West Indies	96,320,030	5.5	—	—	88,129,180	3.8	—	—

Background Information on the Promoters and Substantial Shareholders

Tune Air

Tune Air is one of the Promoters for the Initial Public Offering and has been involved in the affairs and business of the Company since December 2001. Tune Air was incorporated in Malaysia under the Companies Act on May 24, 2001 and is principally an investment holding company. Tune Air has an authorized share capital of RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, with a paid-up capital of RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each.

As at August 31, 2004, the substantial shareholders of Tune Air and their respective shareholdings in Tune Air are as follows:

Name	Direct interest in Tune Air		Indirect interest in Tune Air	
	Number of shares	%	Number of shares	%
Dato' Pahamin Bin Ab. Rajab	80,000	8.0	—	—
Tony Fernandes	410,000	41.0	—	—
Kamarudin Bin Meranun	340,000	34.0	—	—
Abdel Aziz alias Abdul Aziz Bin Abu Bakar	100,000	10.0	—	—
Conor Mc Carthy	70,000	7.0	—	—

IDBIF

IDBIF is one of the Promoters for the Initial Public Offering and has been involved in the affairs and business of the Company since July 2003. IDBIF was incorporated in Labuan under the Offshore Companies Act of Malaysia 1990 on June 16, 2003 and is principally an investment company. IDBIF has an authorized share capital of U.S.$11,000,000 comprising 11,000,000 ordinary shares of U.S.$1.00 each, with a paid-up capital of U.S.$10,001,000 comprising 10,001,000 ordinary shares at U.S.$1.00 each.

As at August 31, 2004, the substantial shareholder of IDBIF and its shareholding in IDBIF are as follows:

Name	Direct interest in IDBIF		Indirect interest in IDBIF	
	Number of shares	%	Number of shares	%
IDB Infrastructure Fund L.P.	10,001,000	100.0	—	—

As at August 31, 2004, the Directors of IDBIF have no equity interest in IDBIF.

CAAL

CAAL is one of the Promoters for the Initial Public Offering and has been involved in the affairs and business of the Company since July 2003. CAAL was incorporated in the Cayman Islands on 4 October 2002 and is principally an investment company. CAAL has an authorized share capital of U.S.$501, comprising 50,000 Class A shares and 100 Class B shares of U.S.$0.01 each, with a paid-up capital of U.S.$99.01 comprising 9,900 class A shares and 1 Class B shares of U.S.$0.01 each. Class A shares have no voting rights whatsoever.

As at August 31, 2004, the substantial shareholders of CAAL and their respective shareholdings in CAAL are as follows:

	Direct interest in CAAL		Indirect interest in CAAL	
Name	**Number of shares**	**%**	**Number of shares**	**%**
Crescent Control Company Ltd.	1	100.0	—	—
Sami Ali A. Sindi(1)	—	—	1(2)	100.0

Notes:

(1) Sami Ali A. Sindi also wholly owns Crescent Venture Partners Ltd (see "Share Ownership")

(2) Deemed interested by virtue of Section 6A of the Companies Act, as Sami Ali A. Sindi wholly owns Crescent Control Company Ltd.

As at August 31, 2004, the Directors of CAAL and their respective shareholdings in CAAL are as follows:

	Direct		Indirect	
Name	**No. of shares**	**%**	**No. of shares**	**%**
Sami Ali A. Sindi	—	—	1(1)	100.0
David Hand	—	—	—	—

Note:

Deemed interested by virtue of Section 6A of the Companies Act, as Sami Ali A. Sindi wholly owns Crescent Control Company Ltd.

DCL

DCL is one of the Promoters for the Initial Public Offering and has been involved in the affairs and business of the Company since July 18, 2003. DCL was incorporated in the Cayman Islands under the laws of the Cayman Islands on 22 December 2002 and is principally involved in the purchase of high yield equity investments. DCL has an authorized share capital of U.S.$50,000 comprising 50,000 ordinary shares of U.S.$1.00 each, with a paid-up capital of U.S.$1,000 comprising 1,000 ordinary shares of U.S.$1.00 each.

As at June 4, 2004, the substantial shareholders of DCL and their respective shareholdings in DCL are as follows:

	Direct interest in DCL		Indirect interest in DCL	
Name	**Number of shares**	**%**	**Number of shares**	**%**
Maples Finance Limited	1,000	100.0	—	—
Calamp (No. 2) Limited	—	—	1,000(1)	100.0
Maples & Calder	—	—	1,000(2)	100.0

Notes:

(1) Deemed interested by virtue of Section 6A of the Companies Act, as Calamp (No. 2) Limited wholly owns Maples Finance Limited, which is the trustee of an express charitable trust holding 100% of DCL. Accordingly, Calamp (No. 2) Limited does not have any economic or beneficial interest over the Company Shares as such interest is held subject to the terms of the declaration of trust for charitable purposes

(2) Deemed interested by virtue of Section 6A of the Companies Act, as Maples & Calder (a law firm in the Cayman Islands) wholly owns Calamp (No. 2) Limited, which in turn has a substantial shareholding in Maples Finance Limited. However, Maples & Calder does not have any economic or beneficial interest over the Company Shares as such interest is held subject to the terms of the declaration of trust for charitable purposes as referred to in note 1 above

As at June 4, 2004, the Directors of DCL had no equity interest in DCL.

IDB Infrastructure Fund L.P.

IDB Infrastructure Fund L.P. (the "Fund") was founded in the Kingdom of Bahrain as a limited partnership and is registered and classified by the Ministry of Commerce as a "simple commandite partnership" in the Bahrain commercial register on August 21, 2001. The Fund has a life of 10 years from the date it first began operations, pursuant to the Bahrain Commercial Companies Law, and has seven limited partners and three profit sharing partners. The Fund invests, for its own account, in infrastructure projects and infrastructure-related companies, the principal business of which is not contrary to the provisions of Islamic Shari'a, in the Member Countries of the Islamic Development Bank ("IDB"). The primary strategic objectives of the Fund are to seek long-term capital appreciation through equity and equity-related investments and to promote the use of Islamic finance in infrastructure projects.

The aggregate equity commitment to the Fund is U.S.$730,500,100. As at July 2, 2004, a cumulative amount of approximately U.S.$246 million has been drawn down from the limited partners. Undrawn capital commitments stand at approximately U.S.$484 million.

The Fund does not have a board of directors. The limited partners and profit sharing partners (other than the general partner) do not take part in the management or control of the activities and affairs of the Fund, and shall have no right or authority to act for the Fund or to take any part, or in any way interfere, in the conduct or management of the Fund.

The general partner, namely Emerging Markets Partnership (Bahrain) E.C., has the exclusive responsibility for the management and control of the activities and affairs of the Fund and has the power and authority to do all things necessary to carry out the purpose and objectives of the Fund.

IDB is the principal sponsor of the Fund. The lead sponsors of the Fund include Dar Al-Maal Al-Islami Trust, the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam, the Kingdom of Bahrain, and the Kingdom of Saudi Arabia represented by the Public Pension Agency. A consortium of Malaysian financial institutions represented by Lembaga Tabung Haji is also a limited partner of the Fund.

Maples Finance Limited

Maples Finance Limited was incorporated in the Cayman Islands on February 17, 1997 under the laws of the Cayman Islands under the name of QSPV Limited. The company changed its name to Maples Finance Limited on January 1, 2003. It is a privately owned trust company which provides fiduciary services to other finance vehicles in the Cayman Island.

Maples Finance Limited has an authorized share capital of U.S.$50,000 comprising 50,000 ordinary shares of U.S.$1.00 each, with a paid-up capital of U.S.$50,000 comprising 50,000 ordinary shares of U.S.$1.00 each.

As at August 31, 2004, the substantial shareholders of Maples Finance Limited and their respective shareholdings in Maples Finance Limited are as follows:

	Direct interest in Maples Finance Limited		Indirect interest in Maples Finance Limited	
	Number of shares	**%**	**Number of shares**	**%**
Substantial Shareholder				
Calamp (No. 2) Limited	50,000	100.0	—	—
Maples & Calder	—	—	50,000(1)	100.0

Note:

Deemed interested by virtue of Section 6A of the Companies Act, as Maples & Calder (a law firm in the Cayman Islands) wholly owns Calamp (No. 2) Limited

As at August 31, 2004, the Directors of Maples Finance Limited had no equity interest in Maples Finance Limited.

Save as disclosed in "Related Party Transactions", none of the Substantial Shareholders of the Company has any interest, direct or indirect (i) in the promotion of, or in any material assets which have been, within the two years preceding the date of the Malaysian Prospectus, acquired or disposed of by or leased to or proposed to be acquired, disposed of by or leased to AirAsia, or (ii) in any contract or arrangement which is material in relation to the business of the Company or AirAsia subsisting as at the date of this Offering Circular.

Directorships and Substantial Shareholdings in All Other Public Corporations for the Past Two Years

Based on the declaration by the promoters and substantial shareholders, save as disclosed below, none of the promoters and substantial shareholders of the Company have any directorships and/or substantial shareholdings in any other public corporation for the two years ended June 4, 2004.

				Direct		Indirect		
Director	Name of Company	Nature of interest	Date of appointment as Director	Number of shares	Percentage of shares	Number of shares	Percentage of shares	Principal activities
Kamarudin Bin Meranun	Intrinsic Capital Management (L) Ltd	Director/ Shareholder	March 30, 1998	667	66.7	—	—	Investment management
Sami Ali A. Sindi	Crescent Venture Partners Ltd	Director/ Shareholder	October 17, 2003	100	100.0	—	—	Investment company
	CaptiveVision Capital Ltd	Shareholder	—	—	—	409,416(1)	16.0	Investing, financing and investment holding
	Skywest Ltd	Shareholder	Shareholder	—	—	11,001,500(2)	19.6	Airline

Notes:

(1) Deemed interested by virtue of Section 6A of the Companies Act, as Sami Ali A. Sindi wholly owns Crescent Venture Partners Ltd, which in turn has a shareholding of more than 15% in CaptiveVision Capital Ltd

(2) Deemed interested by virtue of Section 6A of the Companies Act, as Sami Ali A. Sindi wholly owns Crescent Venture Partners Ltd, which in turn has a shareholding of more than 15% in CaptiveVision Capital Ltd that is a substantial shareholder of Skywest Ltd.

The Board of Directors is of the view that the involvement of Sami Ali A. Sindi in Skywest does not create a conflict of interest for the following reasons:

(a) Skywest operates on short routes only in Western Australia, outside AirAsia's geographical coverage;

(b) Western Australia and in particular Perth itself is approximately six hours away from Kuala Lumpur, outside the economical flying range of the Group's Boeing 737 aircraft type;

(c) to the best of Mr. Sindi's knowledge, Skywest has no plans to move beyond Australia; and

(d) Mr. Sindi's only interest in Skywest is an indirect shareholding via Crescent Venture Partners Ltd and Captive Vision Capital Ltd. Therefore, his interest in Skywest is removed and he is not in anyway involved in Skywest's day-to-day management operations.

THE SELLING SHAREHOLDERS

As at the date of this Offering Circular, the Selling Shareholders are the beneficial owners of an aggregate of 86.1% ordinary shares in the Company. Following the Initial Public Offering, the Selling Shareholders will own 1,391,445,230 Shares representing 59.6% of the enlarged issued and paid-up share capital of the Company (before conversion of Options). The following table presents information regarding the ownership by the Selling Shareholders of Shares before and after giving effect to the Initial Public Offering.

Name	Ordinary shares beneficially owned prior to the Initial Public Offering	No. of Offer Shares to be sold in the Institutional Offering	Ordinary shares beneficially owned after the Initial Public Offering
Tune Air	1,131,673,080	86,328,430	1,045,344,650
IDBIF	122,589,130	11,701,220	110,887,910
CAAL(1)	157,614,590	10,531,100	147,083,490
DCL	96,320,030	8,190,850	88,129,180
	1,508,196,830	116,751,600	1,391,445,230

Note:

Sami Ali A. Sindi, a Director, wholly owns Crescent Control Company Ltd, which in turn wholly owns CAAL. For the details of the number of Shares Sami Ali A. Sindi beneficially owned prior to and after completion of the Initial Public Offering, see "Share Ownership"

RELATED PARTY TRANSACTIONS

Related Party Transactions and Conflict of Interests

Details of each acquisition, disposal and leasing of assets, the establishment of joint ventures, the provision of financial assistance, the provision or receipt of services and any other business transaction or arrangement entered into by AirAsia which involves the interests (direct or indirect) of a director or major shareholder (that is having interests of not less than 5% in voting shares) of AirAsia, or a person connected with such director or shareholder, are set forth below.

The Company has entered into a discretionary cash management investment agreement with Intrinsic Capital Management Sdn Bhd on February 4, 2002. The manager is paid a fixed fee and is also entitled to a bonus fee, the latter in the event returns exceed an agreed minimum return. For the financial year ended 30 June 2004, the manager earned approximately RM107,000. Kamarudin Bin Meranun, a Director and substantial shareholder of the Company, is also a shareholder and former director of Intrinsic Capital Management Sdn Bhd, which is a licensed asset management and corporate advisory company. Kamarudin currently holds 50% interest in Intrinsic Capital Management Sdn Bhd.

The Company uses SP&G Insurance Brokers Sdn Bhd ("SP&G"), a licensed insurance broker, to arrange its aviation and related insurances on a recurrent basis. It is part of the arrangement that the Company does not pay SP&G any fee or commission but the insurers instead remunerate SP&G. Zakaria Bin Meranun is a director of SP&G and he also has a 25% interest in SP&G. He is the brother of Kamarudin Meranun, a Director and substantial shareholder of the Company.

On April 30, 2003, Tune Air, IDB Infrastructure Fund L.P., CAAL, DCL and the Company entered into a shareholders agreement for the regulation of certain rights and entitlements among the substantial shareholders of the Company. A novation agreement dated July 17, 2003 was subsequently entered into between Tune Air, IDB Infrastructure Fund L.P., CAAL, DCL, IDBIF and the Company in relation to the novation of the shareholders agreement dated April 30, 2003 from IDB Infrastructure Fund L.P. to IDBIF.

On November 11, 2003, AAIL, Shin Corporation, Thai AirAsia and the Company entered into a shareholders agreement to regulate the relationship of the parties and the conduct of the business and affairs of Thai AirAsia. The Company undertakes to cause and ensure the performance by AAIL of all its obligations and shall be fully and solely responsible for any non-performance. The business of Thai AirAsia shall be to offer "no frills" passenger air transport services and ancillary services with operations based in Thailand, and shall be modeled on the Company's business model exclusively.

On September 24, 2003, AAIL and the Company entered into a loan agreement, pursuant to which AAIL obtained a loan from the Company of U.S.$5.26 million (equivalent to RM20.0 million) for the financing of AAIL's investment of up to 49% equity in Thai AirAsia. This loan is repayable on demand.

On February 1, 2004, Crunchtime and Thai AirAsia entered into a shareholders agreement to establish Thai Crunch Time, pursuant to which Crunchtime subscribed for 196,000 new ordinary shares of Baht 10 each in Thai Crunch Time representing 49% of its equity.

On February 2, 2004, the Company and Thai AirAsia entered into an administrative fee agreement for the provision by the Company of various support services to Thai AirAsia and to undertake its airline operations for an agreed fee of U.S.$50,000 per month, which the Company has received since April 2004. The services include managerial support, staff deployment, consultancy and other assistance. The agreement is for an initial term of six months, with automatic extension for successive six-month terms unless terminated by mutual agreement. The Company agreed to waive its fees for the initial two months.

On February 2, 2004, the Company and Thai AirAsia entered into a booking fee agreement for the provision of airline booking and marketing services by the Company. The agreement is for an initial term of six months, with automatic extension for successive six-month terms unless terminated by mutual agreement. In consideration for the services, Thai AirAsia shall pay the Company a monthly fee calculated by deriving the proportion of AirAsia's total bookings for the month that is attributable to Thai AirAsia, multiplied by U.S.$60,000.

On February 2, 2004, Thai AirAsia and the Company entered into a fuel hedging agreement, pursuant to which Thai AirAsia engaged the Company to manage its fuel needs against the risks of any adverse physical price movements. The agreement is valid for one year and shall be automatically renewed for successive one-year periods unless terminated by mutual consent.

On May 1, 2004, Wordison Limited (t/a PlaneConsult.com Pte Ltd) ("Wordison") and the Company entered into an airline consultancy agreement for Wordison's advice on aero politics, regulatory factors, market demographics, competitive positioning/scenarios and financial requirements for a monthly retainer of GBP10,000, rising by 5% in May 2005. The term of this agreement is two years expiring April 30, 2006, renewable upon mutually acceptable terms. Conor Mc Carthy, a non-executive Director of the Company, together with his wife, own the entire share capital of Wordison, consisting of two shares.

On June 5, 2004, AAIL and the Company entered into a subscription agreement for the subscription of 5,260,000 new ordinary shares of U.S.$1.00 each in the capital of AAIL. The subscription price shall be paid by converting the existing loan of U.S.$5,260,000 extended by the Company to AAIL.

On September 13, 2004, the Company and Thai AirAsia entered into a maintenance services agreement, pursuant to which AirAsia agrees to render aircraft maintenance and repair services until February 1, 2009. In return for the services, Thai AirAsia shall pay the Company a monthly charge computed essentially on the particular type of maintenance or repair service rendered and the frequency thereof.

On September 15, 2004, AirAsia Mauritius and Thai AirAsia entered into an aircraft lease agreement for the lease of up to seven Boeing 737-300 aircraft to enable Thai AirAsia to undertake its operations in Thailand. The basic rent is U.S.$98,016 per aircraft and unless extended by mutual consent, the term of the lease expires on December 14, 2004.

On September 15, 2004, AirAsia Mauritius and Thai AirAsia entered into a cost sharing agreement, pursuant to which Thai AirAsia agrees to share in the cost of renovating, improving or refurbishing aircraft leased from AirAsia Mauritius. Thai AirAsia shall be responsible to the extent of U.S.$79,240 for such costs. The agreement is for an initial term of one year, with automatic extension for successive one-year terms unless terminated by mutual agreement.

On September 22, 2004, the Company awarded Jackspeed Industries Sdn Bhd ("Jackspeed") a firm order to supply and fabricate leather seat covers and seat cushions for one of its Boeing 737-300 aircraft at the cost of approximately U.S.$63,500. Armin Baniaz Bin Pahamin is a director of Jackspeed and has a 30% ownership interest in Jackspeed. He is the son of the Company's Chairman, Dato' Pahamin bin Ab. Rajab.

On October 22, 2004, the Company entered into an aircraft lease common terms agreement and an aircraft specific lease agreement with PT AWAir. Pursuant to the agreements, PT AWAir will lease one Boeing 737-300 aircraft from the Company at a basic rent of U.S.$98,016 per month. PT AWAir will be responsible for maintenance services and insurance coverage relating to this aircraft. The aircraft is expected to be delivered to PT AWAir in December 2004. The lease is scheduled to expire on February 1, 2009.

Monitoring and Oversight of Related Transactions

The Audit Committee of the Company shall be constituted by three members of the Board of Directors, The Audit Committee reviews any related party transactions and conflict of interest that may be arise within AirAsia. The Audit Committee periodically reviews the procedures set by the Company to monitor related party transactions to ensure that these transactions are carried out on normal commercial terms not more favorable to the related party than those generally available to the third parties dealing at arm's length and are not to the detriment of the Company's minority shareholders. All reviews by the Audit Committee are reported to the Board of Directors of the Company for its further action.

Declarations by the Advisers on Conflict of Interests

RHB Sakura currently holds a right to approximately 5,691,000 ordinary shares of RM0.10 each in the Company transferred to RHB Sakura after the Initial Public Offering, as payment of fees pursuant to credit facilities granted by RHB Sakura to Raja Mohd Azmi bin Raja Razali, Executive Vice President and Chief Financial Officer of the Company, who is not a Selling Shareholder.

Under the terms of the said credit facilities, the said shareholder has also granted RHB Sakura a call option to acquire up to 5,691,639 Shares from the said shareholder at a strike price of 10% above the Initial Public Offering Price (as defined under the credit facilities), exercisable within a period of one month after the Initial Public Offering.

RHB Sakura's interest in shares of the Company (assuming the call option is fully exercised):

(a) is not a material interest only a total of 0.24% of the total Shares in issuance upon the Initial Public Offering, and

(b) does not constitute a conflict of interest as none of the proceeds from the Initial Public Offering will be used to repay the said credit facilities, and the strike price was not set at a discount to the Initial Public Offering.

(ii) Southern Investment Bank Berhad confirms that there is no existing or potential conflict of interest in their capacity as a Joint Managing Underwriter for the Initial Public Offering notwithstanding the following two circumstances:

(a) Southern Investment Bank Berhad's holding company, Southern Bank Berhad ("SBB") has extended a RM50 million term loan facility to the Company, as disclosed in "Description of Material Indebtedness and Credit Facilities — Material Indebtedness — The Company's RM50 million Term Loan Facility from Southern Bank Berhad"; and

(b) that part of the proceeds arising from the Initial Public Offering will be utilised to repay the said term loan facility, as stated in "Use of Proceeds".

As the said amount represents less than 1.0% of the total loans, advances and financing of SBB of RM14.119 billion (bank level) and RM20.562 billion (SBB Group level) based on the audited financial statements of SBB as at December 31, 2003 and is therefore not material, Southern Investment Bank Berhad is of the view that the above circumstances do not give rise to a conflict of interest in their capacity as a Joint Managing Underwriter.

TAXATION

United States

The following summary is a general discussion of certain U.S. federal income tax considerations of the purchase, ownership and disposition of Shares by a U.S. Holder (as defined below). It is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the U.S. Treasury Regulations promulgated thereunder (the "Regulations"), published rulings by the U.S. Internal Revenue Service (the "IRS") and court decisions, all in effect as of the date hereof, all of which authorities are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively. The discussion below does not purport to deal with the U.S. federal income tax consequences applicable to all categories of investors and is directed solely to U.S. Holders that hold such Shares as capital assets within the meaning of Section 1221 of the Code (i.e., generally, holders that acquire Shares for investment). This discussion does not address every aspect of U.S. federal income tax law that may be relevant to a holder of Shares in light of its particular investment circumstances or to certain types of holders of Shares that are subject to special treatment under U.S. federal income tax law (including, but not limited, to banks, insurance companies, financial institutions, tax-exempt organizations, regulated investment companies, dealers or traders in securities or currencies, holders of 10% or more (directly, indirectly or constructively) of the voting stock of the Company or its affiliates, Non-U.S. Holders (as defined below), persons utilizing mark-to-market tax accounting, persons holding Shares as a hedge against currency risks or as a position in a "straddle", "conversion transaction" or "constructive sale" transaction for U.S. federal income tax purposes, certain United States expatriates or persons whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar) and persons who hold Shares through partnerships or other pass-through entities. In addition, this discussion does not address the "foreign personal holding company" rules or alternative minimum tax consequences.

This summary does not discuss the tax consequences of purchase, ownership or disposition of Shares under the tax laws of any state, locality or foreign jurisdiction. Investors considering an investment in Shares should consult their own tax advisors in determining the U.S. federal, state, local and foreign and any other tax consequences to it of an investment in Shares and the purchase, ownership and disposition thereof.

As used in this section, the term "U.S. Holder" means a beneficial owner of Shares that is, for U.S. federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation created or organized in, or under the laws of, the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined under the Code) have the authority to control all substantial decisions of the trust or a trust that has made a valid election under applicable Regulations to be treated as a domestic trust. If an entity treated as a partnership holds Shares, the U.S. federal income tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A partner in a partnership holding Shares should consult its own tax advisor. A "Non-U.S. Holder" means a beneficial owner of Shares that is not a U.S. Holder.

Taxation of Distribution on Shares

Subject to the discussion under "— Passive Foreign Investment Company Considerations" below, distributions made by the Company with respect to the Shares, other than certain pro rata distributions of Shares or rights to acquire Shares, will generally constitute ordinary dividend income for U.S. federal income tax purposes to the extent such distributions are made from the Company's current or accumulated earnings and profits as determined in accordance with U.S. federal income tax principles. To the extent that a distribution exceeds the Company's current and accumulated earnings and profits, it will be treated as a non-taxable return of basis to the extent thereof, and thereafter as capital gain from the sale of Shares. U.S. Holders will not be entitled to claim a dividends received deduction otherwise available to corporations with respect to dividends distributed by the Company.

The Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as a capital gain under the rules described above.

Dividends paid in Ringgit will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received regardless of whether the Ringgit is converted into U.S. dollars at that time. If dividends received in Ringgit are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

A distribution of additional shares to U.S. Holders with respect to their Shares that is made part of a pro rata distribution to all shareholders generally will not be subject to U.S. federal income tax unless shareholders can elect that the distribution be payable in either additional shares or cash.

For purposes of calculating the foreign tax credit, dividends paid on Shares will be treated as income from sources outside the United States and will generally constitute "passive income" or, in the case of certain U.S. Holders, "financial services income". **Prospective holders are urged to consult with their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.**

Subject to the discussion under "Information Reporting and Backup Withholding", a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received on Shares unless that income is effectively connected with the conduct by that Non-U.S. Holder of a trade or business within the United States.

Taxation on Disposition of Shares

Subject to the discussion under "— Passive Foreign Investment Company Considerations" below, a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes on the sale or other disposition of Shares in an amount equal to the difference between the amount realized on the sale or other disposition and such U.S. Holder's tax basis in the Shares. Gain or loss recognized by a U.S. Holder on such sale or other disposition generally will be long-term capital gain or loss if, at the time of sale or other disposition, the Shares have been held for more than one year. The deductibility of capital losses is subject to significant limitations. Any gain or loss will generally be U.S. source.

A U.S. Holder that receives Ringgit on the sale or other disposition of the Shares will realize an amount equal to the U.S. dollar value of the Ringgit on the date of sale or other disposition (or in the case of cash basis and electing accrual basis taxpayers, the settlement date). A U.S. Holder's tax basis in the Shares generally will be the U.S. dollar value of the purchase price on the date of the purchase or in the case of Shares traded on an established securities market, as defined in the application Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. Gain or loss, if any, recognized by a U.S. Holder on the sale of the Shares that is attributable to changes in exchange rates generally will be treated as U.S. source ordinary income or loss. However, such exchange gain or loss will be taken into account only to the extent of total gain or loss realized on the sale.

Subject to the discussion below under "Information Reporting and Backup Withholding", a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of Shares unless: (a) that gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States or (b) in the case of any gain realized by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale or exchange and certain other conditions are met.

Exchange of Ringgit

A U.S. Holder will have a tax basis in Ringgit received as a distribution under or on the sale or other disposition of the Shares equal to the U.S. dollar value of such Ringgit, determined at the time the distribution is received or at the time of the sale or other disposition or in the case of Shares traded on a established securities market, as defined in the applicable Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale or other disposition. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. Any gain or loss realized by a U.S. Holder on a sale or disposition of Ringgit generally will be treated as U.S. source ordinary income or loss.

Passive Foreign Investment Company Considerations

Due to the Company's intention to retain a significant amount of the proceeds of the Initial Public Offering and the treatment of cash under the rules described below, the Company may be a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes for the current taxable year. Whether the Company is a PFIC is a factual determination made annually at the end of the taxable year and there can be no assurance as to whether the Company will be considered a PFIC for any future taxable year. If the Company were a PFIC in any year, special, possibly materially adverse, consequences would, as discussed below, result for U.S. Holders.

A corporation organized outside the United States generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which either: (a) at least 75% of its gross income is "passive income", or (b) on average at least 50% of the gross value of its assets is attributable to assets that produce "passive income" or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. In determining whether it is a PFIC a foreign corporation is required to take into account a pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest.

If the Company is regarded as a PFIC in any year during which a U.S. Holder owns Shares, the U.S. Holder could be subject to additional taxes on any excess distributions received from the Company and any gain realized from the sale or other disposition of the Shares (whether or not the Company continues to be a PFIC). A U.S. Holder has an excess distribution to the extent that distributions on the Shares during a taxable year exceed 125% of the average amount received during the three preceding taxable years (or, if shorter, the U.S. Holder's holding period). To compute the tax on the excess distributions or any gain, (a) the excess distribution or the gain is allocated ratably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any year before the Company became a PFIC is taxed as ordinary income in the current year, and (c) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year. For these purposes, a U.S. Holder that uses the Shares as security for a loan would be treated as having disposed of such Shares.

As an alternative to these special rules, if the Company were a PFIC, a U.S. Holder would be eligible to make an election to have the Company treated as a "qualified electing fund" ("QEF") in the first taxable year in which the U.S. Holder owns Shares and the Company complies with certain reporting requirements. The Company currently does not intend to comply with the reporting requirements necessary for U.S. Holders to elect to treat it as a QEF, and thus it is unlikely that a U.S. Holder would be able to make a QEF election.

In addition, some of the rules with respect to distributions and dispositions described above may be avoided if a U.S. Holder makes a valid "mark-to-market" election (in which case, subject to certain limitations, the U.S. Holder would essentially be required to take into account the difference, if any, between the fair market value and the adjusted tax basis of its Shares at the end of a taxable year as ordinary income (or, subject to certain limitations, ordinary loss), in calculating its income for such year). In addition, gains from an actual sale or other disposition of Shares will be treated as ordinary income, and any losses will be treated as ordinary losses to the extent of any "mark-to-market" gains for prior years. A "mark-to-market" election is only available to U.S. Holders in any tax year that the PFIC stock is considered "regularly traded" on a "qualified exchange" within the meaning of applicable Regulations. It is unclear whether the Main Board of Bursa Securities will constitute a qualified exchange for U.S. federal income tax purposes. **Prospective investors should consult their own tax advisors as to whether the Shares would qualify for the mark-to-market election.**

If the Company is treated as a PFIC, each U.S. Holder of Shares must make an annual return on IRS Form 8621, reporting distributions received and gains realized with respect to each PFIC in which it holds a direct or indirect interest.

Prospective investors are urged to consult their own tax advisors regarding whether an investment in the Shares will be treated as an investment in PFIC stock and the consequences of an investment in a PFIC.

Information Reporting and Backup Withholding

A U.S. Holder may be subject to information reporting with respect to payments of dividend and the proceeds of the sale or other disposition of Shares by a U.S. paying agent or other U.S. intermediary, and, if so, a backup withholding tax may apply to such amounts unless such U.S. Holder is a corporation or comes within certain other exempt categories, and, when required, demonstrates this fact; or provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax, and the amount of any backup withholding from a payment to a U.S. Holder will generally be allowed as a credit against the Holder's U.S. federal income tax liability and may entitle such Holder to a refund, provided that the required information is furnished to the IRS in a timely manner. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption, if applicable.

Malaysia

The statements made herein regarding Malaysian taxation are based on the laws in force as at the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retrospective basis. The following summary does not purport to be a comprehensive description of all of the Malaysian tax considerations that may be relevant to a decision to purchase, own or dispose of the Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of Shares are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of Shares.

Tax Residence

Under Malaysian law, a company is regarded as a resident if the management and control of its affairs are exercised in Malaysia at any time by its directors or other controlling authority. The rules regarding the residence of individuals are complex, but generally are based upon the length of time spent in Malaysia.

Income Tax

Proceeds from the sale, assignment, transfer or other disposition by a holder of the Shares may be subject to Malaysian income tax to the extent that such proceeds constitute income to such holder accruing in, earned or otherwise derived from Malaysia as a result of speculation in the Shares or in the ordinary course of carrying on any business in Malaysia.

Tax on Dividends

Under Malaysian law, dividends from Malaysian corporations are generally subject to Malaysian income tax and tax at the present income tax rate of 28% is deducted at source by the dividend-paying company. All dividends are declared gross and paid net of such tax. Malaysia operates an imputation system of taxation where the corporate income tax paid by the company would be imputed to its shareholders. Dividends paid by a Malaysian company would be regarded as having "suffered" income tax at the prevailing tax rate of 28% (unless paid out of its tax-exempt income account) and the shareholder would have no further Malaysian tax liability in respect of this income. A shareholder receiving Malaysian dividend income (unless such dividend income is paid out of its tax exempt income account) will be entitled to claim a tax credit in respect of the tax so deducted against such shareholder's tax liability in Malaysia. However, a non-resident shareholder generally will have no further liability for Malaysian tax on the dividend.

A Malaysian company enjoying incentives may have a tax exempt income account. A tax exempt dividend can be distributed from the tax exempt income account without deduction of tax in Malaysia. Malaysian law generally provides that the exemption is a two-tier exemption i.e. the Malaysian company may distribute tax-exempt dividends to its shareholders, who may, if it is a company, in turn distribute tax-exempt dividends to its shareholders. Thereafter, any dividends paid out by the last-mentioned shareholder (being a company) would no longer be tax-exempt.

There is no withholding tax on dividends in Malaysia.

Capital Gains Tax

Under current legislation in Malaysia, there is no tax on capital gains from the disposition of securities (including shares, bonds and loan stock) of companies which are not real property companies. Accordingly, there is no tax that will apply to capital gains derived from disposition of the Shares and no claim for capital losses allowed.

Relief from Taxation

Recipients of dividends or other Malaysian income who are resident in countries having tax treaties with Malaysia may be able to claim double taxation relief in accordance with such treaties if such income is taxed in their respective countries.

Holders of Shares are advised to consult their tax advisers concerning the Malaysian tax implications of holding, exchanging, selling, assigning, transferring or otherwise disposing of the Shares.

DETAILS OF THE INITIAL PUBLIC OFFERING

Details of the Initial Public Offering

The Initial Public Offering is subject to the terms and conditions of this Offering Circular and upon acceptance, the Shares are expected to be allocated in the manner described below, subject to clawback and reallocation provisions as set out in "— Clawback and Reallocation":

- *Malaysian Retail Offering at the Retail Price of RM1.1625 per Share, payable in full upon application and subject to refund in the event that the Retail Price is less than RM1.40 per Share.*

  140,101,900 Shares representing approximately 6.0% of the enlarged issued share capital of the Company will be allocated in the following manner:

  (a) 23,350,300 Shares, representing approximately 1.0% of the enlarged issued share capital of the Company (before conversion of Options), are available for application by eligible directors and employees of AirAsia and persons who have contributed to the success of AirAsia; and

  (b) 116,751,600 Shares representing approximately 5.0% of the enlarged issued share capital of the Company (before conversion of Options), are available for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputra individuals, companies, co-operatives, societies and institutions.

  Any Shares not subscribed for under paragraph (a) will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputra individuals, companies, co-operatives, societies and institutions.

  Salient terms of the underwriting for the Malaysian Retail Offering are set out in "Plan of Distribution".

  If the Malaysian Retail Offering is not completed, monies paid in respect of any application for Shares will be returned without interest and if such monies are not returned within 14 days after the Company becomes liable to do so, then the officers of the Company shall be jointly and severally liable to return such monies with interest at the rate of 10% per annum or such other rate as may prescribed by the SC upon expiration of that period.

- *Institutional Offering*

  560,407,500 Shares including 116,751,600 Offer Shares offered by the Selling Shareholders, offered pursuant to the International Institutional Offering and the Malaysian Institutional Offering.

- *Malaysian Institutional Offering at the Institutional Price of RM1.25 per share payable in full upon allocation and determined by way of bookbuilding*

  168,122,250 Shares representing approximately 7.2% of the enlarged issued share capital of the Company (before conversion of Options) are being offered to Malaysian institutional and selected investors.

- *International Institutional Offering at the Institutional Price of RM1.25 per share payable in full upon allocation and determined by way of bookbuilding*

  392,285,250 Shares representing approximately 16.8% of the enlarged issued share capital of the Company (before conversion of Options) are being offered in (i) the United States to qualified institutional buyers in reliance on Rule 144A by the International Purchasers through their selling agents and (ii) transactions outside of the United States and Malaysia in reliance on Regulation S under the Securities Act by the International Purchasers.

The completion of the International Institutional Offering, the Malaysian Institutional Offering and the Malaysian Retail Offering are inter-conditional. There is no minimum subscription amount to be raised from the Initial Public Offering.

There is only one class of shares in the Company, being ordinary shares of RM0.10 each.

As at the date of this Offering Circular, the authorized share capital of the Company consists of 5,000,000,000 Shares. The issued and paid-up share capital of the Company consists of 1,751,273,280 Shares. Upon completion of the Initial Public Offering, the total issued and paid-up share capital of the Company will consist of 2,335,031,080 Shares.

The Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

Details of Allocation to Eligible Directors, Employees and Persons who have Contributed to the Success of AirAsia

The eligible directors and employees of AirAsia and persons who have contributed to the success of the AirAsia as at October 12, 2004 allocated an aggregate of 23,350,400 Shares. The criteria of allocation of the Shares reserved for 1,380 eligible directors and employees of AirAsia and persons who have contributed to the success of AirAsia (of which 2,500,000 Shares are to be made available) is based on respective staff grades, length of service and length of relationship (as the case may be).

Brokerage, Commissions and Other Fees

Brokerage is payable by the Company and the Selling Shareholders (if applicable) in respect of the sale of the Shares to the Malaysian public at the rate of 1.0% of the Retail Price in respect of successful applications which bear the stamp of Participating Organizations of Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia and/or MIH.

The Company will pay or cause to be paid to the Malaysian Retail Underwriters commissions and fees equal to 1.0% of the Retail Price for the Shares sold in the Malaysian Retail Offering.

The Company and the Selling Shareholders will pay or cause to be paid to the Malaysian Institutional Underwriters commissions and fees equal to 1.75% of the Institutional Price for the Malaysian Placement Shares. The Company and Selling Shareholders will pay or cause to be paid to the International Purchasers commissions and fees equal to 1.75% of the Institutional Price for the International Institutional Shares. In addition, (i) the Company and the Selling Shareholders have agreed to pay Joint Bookrunners for the Malaysian Institutional Offering an amount totalling 0.75% of the Institutional Price for the aggregate number of Shares sold in the Malaysian Institutional Offering and (ii) the Company has agreed to pay CSFB an amount equal to 0.75% of the Institutional Price of the aggregate number of Shares sold in the International Institutional Offering.

Purchasers of the Shares in the International Institutional Offering will be required to pay brokerage (and such brokerage will be 1.0% of the Institutional Price), stamp taxes and other similar charges in accordance with the laws and practices of the country of purchase, in addition to the Institutional Price, as applicable. See "Plan of Distribution".

Clawback and Reallocation

In the event the Malaysian Retail Offering is over-subscribed and there is a corresponding under-subscription in the Institutional Offering, Shares may be clawed back from the Institutional Offering and reallocated to the Malaysian Retail Offering. In the event that the Institutional Offering is over-subscribed and there is a corresponding under-subscription in the Malaysian Retail Offering, Shares may be clawed back from the Malaysian Retail Offering and reallocated to the Institutional Offering. There shall be no reallocation in the event the Malaysian Retail Offering and the Institutional Offering are over-subscribed.

Any such reallocation is subject to the agreement of certain parties to the Retail Offer Agreement, the Malaysian Placement Agreement and/or the International Placement Agreement, as applicable.

Purposes of the Initial Public Offering

The purposes of the Initial Public Offering are as follows:

- to obtain the listing of and quotation for the entire issued and paid-up share capital of the Company comprising 2,335,031,080 Shares on the Main Board of Bursa Securities;
- to provide AirAsia access to capital markets and access to retail and institutional investors, to raise funds to finance future expansion and continued growth of AirAsia, and to enhance AirAsia's financial position in order to retain its competitiveness and first mover advantage;
- to provide an opportunity for the Malaysian investing public and institutions, Directors and eligible employees of AirAsia and persons who have contributed to the success of AirAsia to participate in the continuing growth of AirAsia by way of equity participation;

- to enhance the stature of AirAsia to market its services, maintain its existing market position and attract new skilled labor; and
- to establish a financial platform and capital structure to allow AirAsia to continue to take advantage of growth opportunities.

Important Dates

The following events are intended to take place on the following tentative dates:

Event	Tentative Dates
Opening of the Institutional Offering	October 14, 2004
Opening of the Malaysian Retail Offering	October 20, 2004
Closing of the Malaysian Retail Offering	October 27, 2004
Closing of the International Institutional Offering and the Malaysian Institutional Offering	October 29, 2004
Price Determination Date	October 29, 2004
Balloting of applications for the Issue Shares pursuant to the Malaysian Retail Offering	October 29, 2004
Allotment of Issue Shares to successful applicants pursuant to the Malaysian Retail Offering	November 17, 2004
Listing	November 22, 2004

The Initial Public Offering will open and close at the dates stated above or such other date or dates as the Directors of the Company, the Selling Shareholders, the Joint Bookrunners for the Malaysian Institutional Offering, the Sole Bookrunner and Sole Lead Manager for the International Institutional Offering and the Joint Managing Underwriters for the Malaysian Retail Offering in their absolute discretion may mutually decide.

Applications for the Shares pursuant to the Malaysian Retail Offering will open and close at the time and date as stated above or such other date or dates as the Directors of the Company, the Selling Shareholders and Joint Managing Underwriters in their absolute discretion may mutually decide.

Any extension of the abovementioned dates will be announced by way of advertisement in widely-circulated English, Bahasa Malaysia and Chinese newspapers within Malaysia.

Estimated Expenses of the Initial Public Offering

The expenses of this Initial Public Offering are estimated to be RM35.5 million, of which RM22.5 million are estimated commissions and other fees payable to the Sole Bookrunner and Sole Lead Manager, the International Purchasers, the Joint Bookrunners for the Malaysian Institutional Offering and the Joint Managing Underwriters. RM0.6 million are estimated fees payable to authorities and MIH, RM10.0 million are estimated professional fees and RM2.4 million are other fees and expenses such as printing, advertising and traveling expenses incurred in connection with the Initial Public Offering.

The Company shall be responsible and shall pay for all expenses of this Initial Public Offering and for the selling and underwriting commissions, brokerage, registration fees and other expenses and fees incidental to the issue and sale of the Issue Shares. The Selling Shareholders shall be responsible for and shall pay the selling and underwriting commissions, stamp duty and share transfer fees payable in relation to the offer and sale of the Offer Shares.

Trading at Bursa Securities and Settlement in Secondary Market

Upon listing and quotation on Bursa Securities, the Shares that are being offered in the Initial Public Offering will be traded through Bursa Securities and settled by book-entry settlement through CDS, which will be effected in accordance with the terms and conditions for the operation for the CDS accounts, as amended from time to time. The BMD manages the CDS.

Transactions in the Shares under the book-entry settlement system will be reflected by the seller's CDS account being debited with the number of Shares sold and the buyer's CDS account being credited with the number of Shares acquired. No transfer stamp duty is currently payable for the Shares that are settled on a book-entry basis, although there is a nominal transfer fee of RM10.00 payable for each transfer not transacted on Bursa Securities.

Beneficial owners of Shares are required under the CDS rules to maintain, either directly or through depository agents, CDS accounts. Persons holding Shares in CDS accounts may not withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificates except in the following instances:

- to facilitate a share buy-back;
- to facilitate conversion of debt securities;
- to facilitate company restructuring process;
- to facilitate a rectification of any error; and
- in any other circumstances determined by the BMD from time to time, after consultation with the SC.

Brokerage commissions (other than for trades at prices below RM1.00 per share or unit) are fixed in the case of transactions executed by member firms of Bursa Securities at 0.7% of transacted value on the first RM100,000 of the contract. Brokerage commissions for trades with contract value of above RM100,000 are fully negotiable. Minimum brokerage commission for retail trades in 0.3%. Net trading and rebating of commissions (except in certain permissible circumstances) are prohibited on Bursa Securities. In addition to any commission costs and clearing fees payable to Securities Clearing Automated Network Services Sdn Bhd (which is currently at a rate of 0.04% of transacted value for market contracts subject to a maximum of RM200 or a minimum of RM10, whichever is higher), contract stamp duty of RM1.00 per RM1,000 of transacted value or part thereof, subject to a maximum of RM200, is payable in respect of transactions executed by member firms of Bursa Securities on Bursa Securities.

Sales of shares of companies listed on Bursa Securities are normally sold in "board lots" of 100 shares. Investors who desire to sell less than 100 shares of a listed company occasionally experience delays in effecting such sales.

Settlement of trades done on a normal "ready" basis on Bursa Securities generally takes place on the third business day following the transaction date, and payment for the securities is generally settled on the third business day following the transaction date.

PLAN OF DISTRIBUTION

The Company shall be responsible and shall pay for all expenses of this Initial Public Offering and for the selling and underwriting commissions, brokerage, registration fees and other expenses and fees incidental to the issue and sale of the Issue Shares. The Selling Shareholders shall be responsible for and shall pay the selling and underwriting commissions, brokerage, stamp duty and share transfer fees payable in relation to the offer and sale of the Offer Shares. See "Details of the Initial Public Offering — Estimated Expenses of the Initial Public Offering".

The Initial Public Offering

700,509,400 Shares are being offered for sale by the Company and the Selling Shareholder pursuant to the Initial Public Offering. The Initial Public Offering consists of the Malaysian Retail Offering, the International Institutional Offering and the Malaysian Institutional Offering. The closing of each of the International Institutional Offering, the Malaysian Institutional Offering and the Malaysian Retail Offering is conditional upon, among other things, the closing of the transactions contemplated by the International Institutional Underwriting Agreement, the Malaysian Institutional Underwriting Agreement and the Malaysian Retail Underwriting Agreement (each as defined below) and Bursa Securities granting the listing of and permission to deal in the Shares offered in the Initial Public Offering.

The Malaysian Retail Offering

The Malaysian Retail Offering is an offer by the Company to Malaysian retail investors to apply for 140,101,900 Shares at the Retail Price as follows:

(i) 23,350,300 Shares will be offered to eligible directors and employees of the Company and persons who have contributed to the success of the Company based on respective staff grades, length of service and length of relationship (as the case may be); and

(ii) 116,751,600 Shares are available for application by Malaysian citizens, companies, societies, co-operatives and institutions (of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions).

The joint managing underwriters for the Malaysian Retail Offering are RHB Sakura and Southern Investment Bank Berhad (the "Joint Managing Underwriters"). RHB Sakura is also the sponsor of the listing and quotation of the Shares on the Main Board of Bursa Securities. A retail underwriting agreement (the "Malaysian Retail Underwriting Agreement") was entered into between the Company and the Malaysian retail underwriters (the "Malaysian Retail Underwriters") on October 12, 2004 to jointly underwrite up to 116,751,600 Shares which are available for application by the Malaysian investing public under the Malaysian Retail Offering.

The Company will pay or cause to be paid to the Malaysian Retail Underwriters commissions and fees equal to 1.0% of the aggregate gross proceeds for the Malaysian Retail Offering.

The Malaysian Retail Underwriting Agreement stipulates that any two or more Retail Underwriter(s)which has/have agreed to underwrite more than 50% of the total Shares underwritten by the Malaysian Retail Underwriters, (the "Majority Underwriter(s)") may elect to treat any material misrepresentation or any material breach of any representation, warranty and undertaking on the part of the Company set out in the Malaysian Retail Underwriting Agreement as releasing and discharging the Malaysian Retail Underwriters of their obligations under the Malaysian Retail Underwriting Agreement. If any conditions precedent set out in the Malaysian Retail Underwriting Agreement are not satisfied on or before a date to be fixed by the Company, Joint Managing Underwriters and the Selling Shareholders, the Majority Underwriter(s) will be entitled to terminate the Malaysian Retail Underwriting Agreement by notice in writing to the Company and the Joint Managing Underwriters.

The Retail Underwriting Agreement is also terminable upon the occurrence of certain events including any event of force majeure, any sustained change in national or international monetary, financial (including stock market conditions and interest rates), political or economic conditions or currency exchange rates as would, in the opinion of the Joint Managing Underwriters for the Malaysian Retail Offering, directly, materially and adversely affect the business, financial condition or prospects of the Company or the success of the Initial Public Offering.

The Malaysian Institutional Offering

The Malaysian Institutional Offering comprises of an offering of 168,122,250 Shares at the Institutional Price to Malaysian institutional and/or selected investors. RHB Sakura and ECM Libra are acting as Joint Bookrunners for the Malaysian Institutional Offering.

Under the terms and subject to the conditions contained in the Malaysian placement agreement expected to be dated October 30, 2004, (the "Malaysian Placement Agreement") between the Company, the Selling Shareholders, and the placement managers named therein ("the Malaysian Institutional Underwriters"), the Company and the Selling Shareholders will agree to sell to each of the Malaysian Institutional Underwriters, for whom the Joint Bookrunners are acting as representatives, and each Malaysian Institutional Underwriter will severally agree to purchase or procure that there shall be purchased from the Company or the Selling Shareholders, the respective number of Shares stated therein.

The Company and the Selling Shareholders will pay or cause to be paid to the Malaysian Institutional Underwriters commissions and fees equal to 1.75% of the Institutional Price for the Malaysian Placement Shares. In addition, the Company and the Selling Shareholders have agreed to pay the Joint Bookrunners for the Malaysian Institutional Offering an amount totalling 0.75% of the Institutional Price for the aggregate number of Shares sold in the Malaysian Institutional Offering.

If any of the conditions to the Malaysian Institutional Underwriting Agreement are not satisfied on or before the Closing Date, the Malaysian Institutional Underwriters shall be entitled to terminate the Institutional Underwriting Agreement by notice given to the Company and the Selling Shareholders.

The International Institutional Offering

The International Institutional Offering comprises an offering of 392,285,250 Shares to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act and to investors outside the United States and Malaysia in offshore transactions in reliance on Regulation S under the Securities Act.

Under the terms and subject to the conditions contained in the International Subscription/Underwriting Agreement dated October 29, 2004, (the "International Underwriting Agreement") among the Company, the Selling Shareholders and the International Purchasers named below, the Company and the Selling Shareholders have agreed to sell to the International Purchasers and the International Purchasers have severally agreed to purchase or procure that there shall be purchased from the Company or the Selling Shareholders, the respective number of Shares indicated in the following table.

International Purchasers	Number of Shares
Credit Suisse First Boston (Hong Kong) Limited ("CSFB")	390,785,250
CLSA Singapore Pte Limited ("CLSA")	—
DBS Bank Limited ("DBS")	1,500,000
Total	392,285,250

CSFB is the Sole Bookrunner and Sole Lead Manager and CLSA and DBS are the Co-Lead Managers for the International Institutional Offering.

The International Underwriting Agreement provides that the obligations of the International Purchasers to pay for and accept delivery of the Shares are subject to the approval of certain legal matters by their counsel and other conditions contained in the International Underwriting Agreement.

The International Purchasers propose to offer the Shares in the United States initially at the Institutional Price on the cover page of this Offering Circular. After the Initial Public Offering, the offering price may be changed.

The Company and Selling Shareholders will pay or caused to be paid to the International Purchasers commissions and fees equal to 1.75% of the Institutional Price for the International Institutional Shares. In addition, the Company has agreed to pay CSFB an amount equal to 0.75% of the Institutional Price for the aggregate number of Shares sold in the International Institutional Offering. Purchasers of the Shares in the International Institutional Offering will be required to pay brokerage of 1.0% of the Institutional Price, stamp duty and other similar charges in accordance with the laws and practices of the country of purchase, in additional to the Institutional Price as applicable.

The Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S under the Securities Act. The International Purchasers have agreed that, except as permitted by the International Underwriting Agreement, they will not offer, sell or deliver the Shares as part of its distribution at any time within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Shares are restricted as described under "Transfer Restrictions".

Prior to this Initial Public Offering, there has been no trading market for the Shares. The Company has applied for the listing and quotation of its Shares on the Main Board of Bursa Securities. The Institutional Price was fixed by agreement among the Company and the Selling Shareholders, RHB Sakura, ECM Libra and the Sole Bookrunner and Sole Lead Manager (on behalf of the International Purchasers), on October 29, 2004. There can be no assurance that an active trading market for the Shares will develop, or that the Shares will trade in the public market subsequent to this Initial Public Offering at or above the Institutional Price.

The Company and the Selling Shareholders have agreed to indemnify the International Purchasers against liabilities or to contribute to payments which it or they may be required to make in that respect.

For a description of the lock-up agreements the Company and substantially all of its shareholders (including the Selling Shareholders) have entered into and the moratorium on shares, see "Shares Eligible for Future Sale".

The International Purchasers have performed investment banking and advisory services for the Company from time to time for which it has received customary fees and expenses. The International Purchasers may, from time to time, engage in transactions with and perform services for the Company in the ordinary course of its business. For a description of the interests held by RHB Sakura and Southern Investment Bank Bhd, see "Related Party Transactions — Declarations by the Advisers on Conflict of Interests".

TRANSFER RESTRICTIONS

Because the following restrictions will apply to the Initial Public Offering, purchasers are advised to consult their own legal counsel prior to making any offer, resale, pledge or other transfer of the Company's Shares.

United States Selling Restriction

Each purchaser of the Shares represents and agrees as follows:

(a) the Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each purchaser represents that it has not offered or sold, and agrees that it will not offer or sell, any Shares constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Shares. Terms used in this Paragraph have the meaning given to them by Regulation;

(b) neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act ("Regulation D")), nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer and sale of the Shares in the United States;

(c) the purchasers only may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Shares in the United States only to qualified institutional buyers in accordance with Rule 144A; and

(d) it has not entered and will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Shares, except with its affiliates or with the prior written consent of the Company.

United Kingdom Selling Restriction

Each of the purchasers represents and agrees that (i) it has not offered or sold and, prior to the expiry of the period of six months from the issue date of the Shares, will not offer or sell any Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (ii) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Shares in circumstances in which Section 21(1) of the FSMA does not apply to the Company or the Selling Shareholders.

Japan Selling Restriction

The Shares have not been and will not be, registered under the Securities and Exchange Law of Japan (the "SEL"), and the Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (including Japanese corporations) or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan, except that the offer and sale of the Shares in Japan may be made in accordance with the SEL and with all other applicable laws and regulations of Japan. In this clause, "a resident/residents of Japan" shall have the meaning as defined under the Foreign Exchange and Foreign Trade Law of Japan.

Singapore Selling Restriction

This Offering Circular has not been and will not be registered as a Prospectus with the Monetary Authority of Singapore and the Shares will be offered in Singapore pursuant to exemptions invoked under Sections 274 and 275 of the Securities and Futures Act (Act 42 of 2001) of Singapore (the "Singapore

Securities and Futures Act"). Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares may not be circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than: (i) to an institutional investor or other person specified in Section 274 of the Singapore Securities and Futures Act; (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Singapore Securities and Futures Act; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Singapore Securities and Futures Act.

Hong Kong Selling Restriction

Each purchaser of the Shares represents and agrees that

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Shares other than (i) to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Shares, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571) and any rules made thereunder."

The Netherlands Selling Restriction

The Shares may only be offered The Netherlands, as part of their initial distribution or as part of any re-offering, and this document may only be distributed and circulated, and any offer of these Shares shall only be announced in writing (whether electronically or otherwise) in The Netherlands, to individuals or legal entities who or which trade or invest in securities in the conduct of a business or profession ("Professional Investors", which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institutions, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities), provided that it will be made clear upon making any such offers and from any and all documents and advertisements in which the forthcoming offering of these Shares is publicly announced in The Netherlands, that the offer is exclusively made to such Professional Investors in The Netherlands.

Australia Selling Restriction

No prospectus or other disclosure document in relation to the Shares has been lodged with, or registered by, the Australian Securities and Investments Commission ("ASIC") or the Australian Stock Exchange Limited. No person:

(a) may offer or invite applications for the issue, sale or purchase of the Shares in Australia (including an offer or invitation which is received by a person in Australia); nor

(b) distribute or publish any other offering material or advertisement relating to the Shares in Australia,

unless:

(a) the consideration payable by each offeree at the time of issue is at least A$500,000 (disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not need disclosure to investors under Pt 6D.2 of the Corporations Act 2001 of Australia; and

(b) such action complies with all applicable laws, regulations and directives and does not require a disclosure document to be lodged with the Australian Securities and Investments Commission.

LEGAL MATTERS

Certain legal matters in connection with the Shares will be passed upon for the Company by Logan Sabapathy & Co with respect to Malaysian law, and by Clifford Chance Wong with respect to United States federal law and English law. In rendering their opinions, Clifford Chance Wong may rely as to matters of Malaysian law upon the opinion of Logan Sabapathy & Co.

Certain legal matters in connection with the enforcement of a foreign money order judgment in the Cayman Islands will be passed upon for the Company by Maples and Calder.

Certain legal matters in connection with the Shares will be passed upon for the Sole Bookrunner and Sole Lead Manager by Allen & Overy with respect to United States federal law and English law.

INDEPENDENT AUDITORS

The Company's financial statements as at and for the years ended March 31, 2000 and 2001, and the 15 months ended June 30, 2002, and consolidated financial statements as at and for the years ended June 30, 2003 and 2004, included in this Offering Circular have been audited by PricewaterhouseCoopers, independent auditors, as stated in their reports appearing in this Offering Circular.

INDEPENDENT EXPERT

The information in the Industry Overview section is based on the report by S-A-P, as experts in the aviation industry. S-A-P has agreed to be named as an expert hereunder and has given its consent to include extracts and summaries of its report in the Industry Overview in this Offering Circular.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN MAAS AND U.S. GAAP

The historical consolidated financial statements included in this Offering Circular have been prepared and presented in accordance with accounting principles generally accepted in Malaysia. In Malaysia, financial statements are prepared in accordance with provisions of the Companies Act, 1965 and applicable approved accounting standards issued by the Malaysian Accounting Standards Board. ("Malaysian GAAP"). Financial statements in the United States are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Malaysian GAAP differs in certain material respects from U.S. GAAP. Such differences involve methods for measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP which have not been described.

The following paragraphs summarize the areas in which differences between Malaysian GAAP and U.S. GAAP could be significant to the Group's financial position and results of operations. The Company is responsible for preparing the Summary below. The summary should not be construed as being exhaustive. No attempt has been made to quantify the effects of such differences, nor has a reconciliation of Malaysian GAAP to U.S. GAAP been undertaken. Had any such quantification or reconciliation been undertaken by the Group, other potential significant accounting and disclosure differences may have come to its attention which are not identified below.

Additionally, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements or notes thereto. Further, no attempt has been made to identify future differences between Malaysian GAAP and U.S. GAAP as the result of prescribed changes in accounting standards. Regulatory bodies that promulgate Malaysian GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between Malaysian GAAP and U.S. GAAP that may affect the Group's financial statements as a result of transactions or events that may occur in the future. Accordingly, there can be no assurance that the Summary is complete. In making an investment decision, potential investors must rely upon their own examination of the Group, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the principal differences between Malaysian GAAP and U.S. GAAP, and how these differences might affect the financial information herein.

Industry Specific Accounting

The Group is involved in the provision of air transportation services. Under Malaysian GAAP, there are no specific accounting standards for such specialized industries. Under U.S. GAAP, specific and prescriptive accounting guidances are applicable to such specialized industries which could result in differences between Malaysian GAAP and U.S. GAAP in timing of recognizing revenue and costs, measurement of assets and liabilities and financial reporting disclosures.

Derivative Instruments and Hedging Activities

Prior to January 1, 2002, there was no standard on accounting for derivative instruments and hedging activities under Malaysian GAAP and such instruments are not required to be recorded in the balance sheet. Effective January 1, 2002, MASB 24 "Financial Instruments: Disclosure and Presentation" prescribes certain requirements for presentation of on-balance-sheet financial instruments and identifies the information that should be disclosed for both on-balance-sheet (recognized) and off-balance-sheet (unrecognized) financial instruments. The fair value of financial assets and financial liabilities must be disclosed in the notes to the financial statements. This standard does not address the recognition and measurement of derivative instruments.

Under U.S. GAAP, all derivative instruments are recorded as either assets or liabilities in the balance sheet and measured at fair value. Under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", as amended, accounting for derivative instruments is determined by the purpose for which the instrument was entered into. In general, derivative financial instruments which are entered into for speculative or trading purposes (or which do not meet the criteria for accounting for such items as hedges), rather than to hedge exposures to risks, are accounted for at fair value with all gains and losses recognized currently in earnings. For a derivative entered into in order to hedge certain exposures and be specifically designated as a hedge, an entity is required to meet certain conditions, including to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Derivative financial instruments, which meet the defined criteria in order to be classified as hedges, are accounted for in a manner so as to offset the gains and losses applicable to the derivative financial instrument against the gains and losses on the transactions or commitments which are being hedged, that is, either by recording the gains and losses on derivative financial instruments currently when they are used as existing on-balance sheet transactions or by deferring the gains and losses on derivative financial instruments in a separate component of shareholders' equity section of the balance sheet when they are used as hedges of forecasted transactions. Any ineffectiveness will be recorded in the income statement. Derivatives not designated as hedges are marked to market and changes in fair value are charged to the income statement.

In addition, SFAS 133 also defines the concept of "embedded" derivatives which may now exist due to a broader definition of a derivative instrument. Certain financial instruments and other types of contracts that do not, in their entirety, meet the definition of a derivative instrument often contain "embedded" derivative instruments that possess implicit or explicit contract terms affecting some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to that of a derivative instrument. The effect of embedding a derivative instrument in a host contract is that some or all of the cash flows or other exchanges that otherwise would be required by the host contract will be modified based on an underlying that is applied to a notional amount to determine the cash flows or other exchanges required by the contract. Under SFAS 133, an embedded derivative instrument must be separated from the host contract and accounted for separately as a derivative instrument at fair value if certain criteria have been fulfilled.

Hence, depending on the nature of the instruments it is possible that the treatment of these instruments could result in different carrying amounts in the Group's balance sheet and different amounts being recognized as gains and losses in the income statement under U.S. GAAP.

Dividends

Under Malaysian GAAP, final proposed dividends are not recorded as of the date of declaration by the board of directors. Such dividends are recorded when they are formally approved by shareholders at the shareholders' meeting.

Under U.S. GAAP, dividends are recorded as of the date of declaration by the board of directors.

Impairment of Assets to be Held and Used

Prior to January 1, 2002, Malaysian GAAP did not have any accounting rules prescribing the circumstances in which impairment of non-current assets should be recognized nor the basis for determining the amount of such impairment. Effective July 1, 2002, the Group adopted MASB 23 "Impairment of Assets" which states that when indicators exist that there is an impairment, the carrying value of the assets should be adjusted to the recoverable amounts, calculated as the future discounted cash flows expected to result from use and eventual disposal of the asset. Where the recoverable amount is below carrying value, a provision for impairment would be recognized in the profit and loss account except where such provision reverses a previous upward revaluation which was credited directly to reserves. When the circumstances and events that led to the provision for impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, such provisions would be written back through the profit and loss account, or for certain assets where the revaluation is above cost to the appropriate revaluation reserve. The amount written back should not exceed the amount of the provision for impairment.

U.S. GAAP requires an impairment loss to be recognized for long lived assets, including property, plant and equipment and certain identifiable intangibles where a triggering event occurs or the carrying amount of the asset may not be recoverable. An estimate of the future undiscounted cash flows expected to result from use and eventual disposal of the asset, or the group of assets, is compared to the carrying value to determine whether impairment exists. If it is determined that the asset is impaired, the impairment loss recognized as the difference between the carrying amount of the asset and its fair value based on quoted market value less selling costs, if available. If quoted market value is not available, the estimate of fair value is based on various valuation techniques, including the sum of future discounted cash flows and fundamental analysis. Once such impairments have been recorded, subsequent reversal of impairment charges are not allowed.

Goodwill

Malaysian GAAP does not prescribe the treatment of goodwill representing the excess of the purchase price over the fair value of the net assets of an acquired company subsequent to its initial recognition, Group policy is to recognize goodwill as an intangible asset and disclose on the consolidated balance sheet at cost less any impairment losses. The carrying value of goodwill will be subject to annual impairment review and whenever there is an event or change in circumstances that would indicate that the carrying value may not be recoverable. An impairment loss will be recorded in the income statement if the impairment assessment indicates that the recoverable amount is less than the carrying value. Malaysian GAAP guidance on negative goodwill is not prescriptive.

Prior to January 1, 2002, under U.S. GAAP, goodwill, negative goodwill and other intangible assets were amortized over their estimated useful lives, not exceeding 40 years. Upon the adoption of SFAS 142 "Goodwill and Other Intangible Assets", which is effective beginning January 1, 2002, intangible assets are amortized over their useful lives unless such lives are indefinite. Goodwill and intangible assets with indefinite useful lives are not amortized but instead are subject to a transitional impairment test. Thereafter, such assets will be subject to subsequent annual impairment reviews or whenever there are events or changes in circumstances that would indicate that their carrying values may not be recoverable.

Upon the adoption of SFAS 141 "Business Combinations", all business combination initiated after June 30, 2001 shall be accounted for using purchase accounting. Negative goodwill is deducted proportionally from the purchase price allocated to certain acquired non-current assets, but the carrying amounts of these assets cannot be reduced below zero. Any remaining negative goodwill is recognized as an extraordinary gain immediately in earnings.

Deferred Tax

Prior to January 1, 2003 under Malaysian GAAP, deferred taxation was calculated under the "Income Statement" liability method in respect of taxation differences arising from all timing differences. Tax deferred or accelerated by the effect of timing differences is accounted for to the extent that it is probable that a liability or asset will crystallize. The tax effect of timing differences that result in a debit balance or a debit to the deferred tax balance is not carried forward unless there is a reasonable expectation of its realization. The potential tax saving relating to a tax loss carry forward is only recognized if there is assurance beyond any reasonable doubt that future taxable income will be sufficient for the benefit of such loss to be realized.

The Group adopted MASB 25 "Income Taxes" with effect from July 1, 2002. This standard has been applied retrospectively by the Group. As a result, the Group has restated its financial statements for the year ended 30 June 2003 to reflect the effect of adopting MASB 25, which requires deferred tax assets and liabilities to be recognized in full (as opposed to the partial provision method under the previous standard) using the "balance sheet" liability method. This method focuses on temporary differences of an asset or a liability at any point in time. Generally deferred tax assets or liabilities arising from temporary differences need to be measured at expected tax rate prevailing in the manner of settlement and recognized in the balance sheet, and movements of deferred tax assets and liabilities between the two balance sheet dates need to be reported either in the income statement or as an item of recognized gain or loss in the statement of changes in equity. Deferred tax assets are recognized when it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. However, under Malaysian GAAP, deferred taxes are not recognized for temporary differences related to investment tax allowances.

Under U.S. GAAP, deferred tax liabilities and assets must be recognized for the estimated future tax effect attributable to temporary differences for financial statement purposes, and their respective tax bases. The measurement of deferred tax assets, including those arising from an acquired company's operating loss carry forwards recorded at the acquisition date, will be reduced by a valuation allowance if, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized in the future.

Under Malaysian GAAP, deferred tax is calculated using the tax rates that have been enacted or substantively enacted. Under US GAAP, the use of substantively enacted rates is not permitted. The tax rate and tax laws must have been enacted.

Inventories

Under Malaysian GAAP, inventories are stated at the lower of cost and net realizable value. The net realizable value is the estimated selling price less costs to completion and selling expenses. A valuation loss shall be deducted directly from inventories and, recorded as part of cost of sales.

Under U.S. GAAP, inventories are required to be stated at the lower of cost or market value. Market value is equal to current replacement cost to the extent that it does not exceed net realizable value. In addition, market value should not be less than net realizable value reduced by an allowance for a normal profit margin. Obsolescence and valuation adjustments are included as part of cost of goods sold under U.S. GAAP.

Leases

The classification of leases under Malaysian GAAP is based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return due to changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realization of a residual value.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations which would normally lead to a lease being classified as a finance lease are:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

US GAAP is more prescriptive in nature. It has extensive form-driven requirements and specific quantitative guidance on the indicators of finance lease.

Investment Securities (except for Investment Securities under the Equity Method)

(i) Classification

Under Malaysian GAAP,

- "short-term quoted investments" are marketable securities that are acquired and held with intention for re-sale in the short-term, and
- "long-term quoted investments" which are neither subsidiaries nor associates nor joint ventures are marketable securities that are acquired and held for yield or capital growth.

Under U.S. GAAP, Investments in equity securities that have a readily determinable fair value and all investments in debt securities are classified into one of three categories as follows:

- "trading" securities are debt and equity securities which are bought and held for short-term, principally for the purpose of selling,
- "held-to-maturity" securities ("HTM") are debt securities that an enterprise has a positive intent and ability to hold to maturity, and
- "available for sale" securities ("AFS") are debt and readily marketable equity securities that are not classified either as HTM or "trading" securities.

(ii) Carrying Value

Under Malaysian GAAP, "short-term quoted investments" are stated at the lower of cost and market value on portfolio basis. Any reduction in market value is taken to income.

Under Malaysian GAAP, investments classified as "long-term quoted investments" are stated at cost and allowance is made in the event of any permanent diminution in value.

Under U.S. GAAP,

- "trading" securities are reported at fair value, with unrealized gains and losses included in earnings.
- debt securities classified as HTM are reported at amortized cost, unless a decline in value below cost is other than temporary. Impairment losses are recognized in earnings and cannot be subsequently reversed.
- debt securities and marketable equity securities classified as AFS are reported at fair value with unrealized gain or loss reflected as a separate component of other comprehensive income within equity until realized, unless a decline below cost is other than temporary. Impairment losses are recognized in earnings and cannot be subsequently reversed.
- non-marketable equity securities or equity securities with sales restrictions exceeding one year, which are not accounted for using the equity method, are carried at acquisition cost, subject to any impairment. Impairment losses are recognized in earnings and cannot be subsequently reversed.

(iii) Transfers

Under Malaysian GAAP, transfers, if any, from "short-term quoted investments" to "long-term quoted investments" are made at the lower of carrying value and market value. Under U.S. GAAP, the transfer between trading and AFS securities is accounted for at fair value. The transfer from HTM to trading or AFS securities, which should be rare, is also accounted for at fair value.

Revenue Recognition

Malaysian GAAP focuses on the transfer of significant risk and rewards and the probability that the economic benefits associated with the transaction will flow to the entity, and that the revenue and costs can be measured reliably. U.S. GAAP focuses more on revenues being realized (either converted into cash or cash equivalents or the likelihood of its receipt being reasonably certain) and earned. U.S. GAAP generally considers delivery to have occurred when title is transferred and the risks and rewards of ownership are assumed, and revenue as being realized or realizable and earned when the all of the following criteria are met:

- persuasive evidence of an arrangement exists,
- delivery has occurred or services have been rendered,
- seller's price to the buyer is fixed and determinable,
- collectibility is reasonably assured.

The Group defers the recognition of sales of passenger seats until the flight takes place. Seats sold but unused upon the relevant flights are not refundable. Refunds are provided for only on cancellation of flights by the Group.

Specific revenue recognition methods are prescribed for certain situations, such as where customers have rights of return, sales are made via distributors or revenues are earned under long-term construction-type contracts.

Additionally, U.S. GAAP sets forth strict standards regarding the recognition of revenue in multi-element sales agreements, in sales requiring installation or customer approval and in instances where ultimate collectibility is in doubt. Depending on the nature of the various sales agreements entered into by the Group, it is possible that, if applied, the revenue recognition treatment under U.S. GAAP could result in different amounts of revenue being recognized in the income statement and different amounts of accounts receivable being recorded in the balance sheet.

Employees Share Option Scheme

Malaysian GAAP does not require the recognition of compensation expense in the income statement in relation to stock options granted to employees. Compensation expense is only recognized when the share options are exercised by the employees, and the proceeds received, net of any transactions costs, are credited to share capital and share premium. Detailed disclosures are required in the financial statements under MASB 29, "Employee Benefits", which became effective from January 1, 2003. Such disclosures include the exercise dates, exercise prices and expiry dates of the share options and fair value of the underlying shares.

U.S. GAAP requires share option expenses to be recognized and accounted for using the fair value based method or the intrinsic-value based method. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award using an option pricing model, adjusted for forfeitures, and is recognized over the related service period, which is usually the vesting period.

Foreign Currency Transactions

The Group's financial statements are stated in Ringgit Malaysia ("RM"). Under Malaysian GAAP, transactions in foreign currencies have been translated into RM at the rates ruling on the dates of the transactions unless hedged by forward foreign contracts, in which case the rates specified in such forward contracts are used. Monetary assets and liabilities in foreign currencies at the balance sheet date have been translated at the rates ruling on that date. Gains and losses arising from translation are included in the income statement. Under Malaysian GAAP, transactions in foreign currencies hedged by forward contracts have been translated into RM at the rates specified in such forward contracts are used which resulted in no gains or losses in foreign currencies for the transactions. Malaysian GAAP assumes that the forward contracts used as hedging instruments are perfectly effective, that is, the gains or losses on forward contracts used in a hedge of foreign currency risk will completely offset the losses or gains on the transactions in foreign currencies hedged.

Under U.S. GAAP, monetary assets and liabilities denominated in foreign currencies are translated into RM at the exchange rate prevailing on the balance sheet date, with resulting gains and losses included in the income statement. Non-monetary foreign currency assets and liabilities are translated at the appropriate historical rate. Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. The relating gains and losses from the settlement of foreign currency transactions and from remeasurement at the balance sheet date are recorded in the income statement. Under U.S. GAAP, transactions in foreign currencies hedged by forward contracts should be translated into RM based on spot exchange rates. The forward contracts used for hedging should be translated based on the forward rates prevailing at the date of the transaction. As a result, there is a different measurement criteria between the transactions in foreign currencies hedged based on spot exchange rates and the forward contracts used for hedging based on forward rates. Therefore, the gains or losses on forward contracts used in a hedge of foreign currency risk will not completely offset the losses or gains on the transactions in foreign currencies hedged, resulting in net gains or losses included in the income statement, even when the forward contracts used as hedging instruments appear to be perfectly effective.

Consolidation of Variable Interest Entities

Under Malaysian GAAP, there are no specific accounting standards for consolidation of variable interest entities. Consolidation is based on voting interests and power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Under U.S. GAAP, in January 2003, the FASB issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which was further revised in December 2003. FIN 46 provides a new framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of VIEs in its consolidated financial statements of the primary beneficiary of the entity. The primary beneficiary is generally defined as having the majority of the risks of loss from the VIEs' activities or entitled to receive a majority of the entity's residual returns, or both. For VIEs in which a significant (but not majority) variable interest is held, certain disclosures are required. The provisions of FIN 46 were applicable to variable interests in VIEs created after January 31, 2003.

Segmental Reporting

Under Malaysian GAAP, segmental reporting is primarily based on the manner in which it is reported externally to investors. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. The dominant source and nature of an enterprise's risks and returns should govern whether its primary segment reporting format will be business segments or geographical segments. Under U.S. GAAP, segmental reporting is based on the manner in which it is reported internally to management. This information is required to be disclosed on the same basis under which it is regularly reviewed by the chief operating decision maker in determining resource allocation and assessing performance and is not necessarily the basis under which the consolidated financial statements are reported externally.

Statement of Comprehensive Income

The financial information of the Group included in the Offering Circular includes the consolidated income statements for each of the two years ended March 31, 2001, the 15 months ended June 30, 2002 and the two years ended June 30, 2004 and the consolidated balance sheets of the Group as at March 31, 2000 and 2001, and June 30, 2002, 2003 and 2004 and the consolidated cash flow statements for each of the two years ended March 31, 2001, the 15 months ended June 30, 2002 and the two years ended June 30, 2004.

Under U.S. GAAP, SFAS 130 "Reporting Comprehensive Income", requires the reporting of comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements. Comprehensive income other than net income reported in the income statement is known as other comprehensive income ("OCI"), such items should be classified separately in OCI based on their nature. Items reported should be accumulated in a separate "accumulated OCI" component of shareholders' equity. Accumulated OCI are comprised of foreign currency adjustment, unrealized gains (losses) on securities, minimum pension liability and income tax related to other comprehensive income items. Items reported should be accumulated. Malaysian GAAP does not require this disclosure.

Presentation and Disclosure

Disclosure in financial statements is generally more extensive under U.S. GAAP than Malaysian GAAP, and there are differences in presentation including (but not limited to) the following:

Changes in Accounting Policies. Under Malaysian GAAP, a change in an accounting policy as a result of the adoption of a newly-issued accounting pronouncement that relates to prior periods is reflected through the restatement of all prior periods if material.

Under U.S. GAAP, accounting and disclosure during the adoption and transition period of newly-issued accounting pronouncement are provided in the pronouncement. Generally, the cumulative effect of the change of accounting principle and method (net of tax) is shown in the income statement, after extraordinary items and before net income, in the current year in which the change occurs, and prior periods are not adjusted.

Presentation of associates. Under Malaysian GAAP, the presentation of share of associates' profit or loss before taxation and the share of associates' taxation is required. U.S. GAAP requires presentation of associates results on a post tax basis and requires detailed disclosure about significant associates, including information on assets, liabilities and results.

Presentation of acquisition of subsidiaries. Under Malaysian GAAP, acquisition accounted for using the purchase method requires the disclosure of names and description of combining entities, method of accounting for acquisition and summary of fair values of assets and liabilities acquired and impact on results and financial position of the acquirer. U.S. GAAP requires the same disclosure, plus additional disclosures regarding the reasons for acquisition, and details of allocation as if acquisition occurred at start of the comparative period.

Cash flow statements. Under Malaysian GAAP, cash and cash equivalents must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Cash and cash equivalent include overdraft and investment with a short maturity from acquisition date. Under U.S. GAAP, cash and cash equivalents include short term, highly liquid investments that have original maturities of three months or less and exclude overdrafts. Movement in restricted cash are classified as investing activities.

AIRASIA BERHAD
(Incorporated in Malaysia)

INDEX TO FINANCIAL STATEMENTS

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REPORT OF THE AUDITORS TO THE MEMBERS OF AIRASIA SDN. BHD. FOR THE YEAR ENDED 31 MARCH 2000

(name subsequently changed to AirAsia Berhad)
(Company No. 284669 W)

We have audited the financial statements included on pages F-7 to F-41. The financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 31 March 2000 and of the results and cash flows of the Company for the year ended on that date.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

Kuala Lumpur
5 July 2000

PRICEWATERHOUSECOOPERS

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REPORT OF THE AUDITORS TO THE MEMBERS OF AIRASIA SDN. BHD. FOR THE YEAR ENDED 31 MARCH 2001

(name subsequently changed to AirAsia Berhad)
(Company No. 284669 W)

We have audited the financial statements included on pages F-7 to F-41. The financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

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In our opinion, the financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 31 March 2001 and of the results and cash flows of the Company for the year ended on that date.

Pricewaterhouse

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

Kuala Lumpur
22 May 2001

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REPORT OF THE AUDITORS TO THE MEMBERS OF AIRASIA BERHAD FOR THE 15 MONTHS ENDED 30 JUNE 2002

(formerly known as AirAsia Sdn. Bhd.)
(Company No. 284669 W)

We have audited the financial statements included on pages F-7 to F-41. The financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 30 June 2002 and of the results and cash flows of the Company for the 15 months ended on that date.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

Kuala Lumpur
28 June 2004

PRICEWATERHOUSECOOPERS

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REPORT OF THE AUDITORS TO THE MEMBERS OF AIRASIA BERHAD FOR THE YEAR ENDED 30 JUNE 2003

(formerly known as AirAsia Sdn. Bhd.)
(Company No. 284669 W)

We have audited the consolidated financial statements set out on pages F-7 to F-41. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Directors, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and Company as at 30 June 2003 and of the results and cash flows of the Group and Company for the financial year ended on that date.

PricewaterhouseCoopers

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Kuala Lumpur
28 June 2004

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REPORT OF THE AUDITORS TO THE MEMBERS OF AIRASIA BERHAD FOR THE YEAR ENDED 30 JUNE 2004

(Formerly known as AirAsia Sdn. Bhd.)
(Company No. 284669 W)

We have audited the consolidated financial statements set out on pages F-7 to F-41. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Directors, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and Company as at 30 June 2004 and of the results and cash flows of the Group and Company for the financial year ended on that date.

Pricewaterhouse Co

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

Kuala Lumpur
29 September 2004

AIRASIA BERHAD
(Incorporated in Malaysia)

The financial statements of AirAsia Berhad ("the Company") and its subsidiaries and associated companies (collectively known as "Group" or "the Group") presented herein are expressed in Ringgit Malaysia ("RM") and, solely for the convenience of the reader, the financial statements as at and for the year ended 30 June 2004 has been translated into United States Dollar ("U.S.$") at the rate of RM3.80 = U.S.$1.00, fixed by Bank Negara Malaysia since September 1998. Such translation amounts are unaudited and it should not be construed that the RM amounts represents, or have been or could be converted into U.S.$ at that or any other rate.

INCOME STATEMENTS

		Company					Group		
		Year ended 31 March		15 months ended 30 June	Year ended 30 June				
	Note	2000	2001	2002	2003	2004	2003	2004	2004
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	USD'000
Revenue	1	149,285	167,749	217,421	329,360	389,120	330,040	392,690	103,339
Cost of sales	2	(171,994)	(176,463)	(208,147)	(288,362)	(276,796)	(288,490)	(279,119)	(73,452)
Gross (loss)/profit		(22,709)	(8,714)	9,274	40,998	112,324	41,550	113,571	29,887
Sales and marketing expenses		(640)	(409)	(1,499)	(4,361)	(9,491)	(4,361)	(9,411)	(2,477)
Administration expenses	3	(2,862)	(3,523)	(7,936)	(22,546)	(32,993)	(23,061)	(34,351)	(9,040)
Other operating expenses		(2,573)	(2,048)	(1,445)	(3,726)	(12,866)	(3,758)	(13,054)	(3,435)
Other operating income		566	136	307	1,175	4,537	1,175	4,563	1,201
(Loss)/profit from operations	4	(28,218)	(14,558)	(1,299)	11,540	61,511	11,545	61,318	16,136
Finance costs	6	(3,075)	(4,559)	(308)	(75)	(3,124)	(84)	(3,131)	(824)
Share of losses of an associated company	11	0	0	0	0	0	0	(116)	(31)
(Loss)/profit before taxation		(31,293)	(19,117)	(1,607)	11,465	58,387	11,461	58,071	15,281
Taxation	7	(35)	(21)	(56)	7,375	(9,052)	7,375	(9,052)	(2,382)
(Loss)/profit after taxation		(31,328)	(19,138)	(1,663)	18,840	49,335	18,836	49,019	12,899
Minority interests		0	0	0	0	0	2	48	13
(Loss)/profit attributable to shareholders		(31,328)	(19,138)	(1,663)	18,840	49,335	18,838	49,067	12,912
(Loss)/earnings per share (sen)	8								
— Basic		(60.2)	(36.8)	(3.2)	36.2	64.6	36.2	64.3	16.9
— Diluted		(60.2)	(36.8)	(2.8)	11.7	28.3	11.7	28.1	7.4

The accompanying notes on pages F-13 to F-41 form an integral part of the financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS

		Company					Group		
		As at 31 March		As at 30 June					
	Note	2000	2001	2002	2003	2004	2003	2004	2004
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	USD'000
NON CURRENT ASSETS									
Property, plant and equipment . . .	9	1,451	1,463	6,704	19,335	157,636	20,048	158,456	41,699
Investment in subsidiary company	10	0	0	0	50	50	0	0	0
Investment in an associated company	11	0	0	0	0	0	0	86	23
Other investments	12	0	0	0	6,379	108	6,379	108	28
Deferred expenditure		0	0	6,438	7,574	4,369	7,574	4,369	1,150
Deferred tax assets	13	0	0	0	7,500	0	7,500	0	0
		1,451	1,463	13,142	40,838	162,163	41,501	163,019	42,900
CURRENT ASSETS									
Deferred share issue expense	14	0	0	0	0	2,741	0	2,741	721
Inventories (at cost)		2,644	2,765	1,949	2,120	3,810	2,193	3,947	1,039
Trade and other receivables	15	9,122	10,510	22,576	46,349	113,590	46,437	113,947	29,986
Amount owing by holding company	16	0	0	0	688	0	688	0	0
Amount owing by a subsidiary company	17	0	0	0	441	328	0	0	0
Amount owing by an associated company		0	0	0	0	0	0	202	53
Deposits, bank and cash balances	18	13,538	34,525	13,769	33,420	66,084	33,503	66,147	17,407
		25,304	47,800	38,294	83,018	186,553	82,821	186,984	49,206
CURRENT LIABILITIES									
Trade and other payables	19	42,204	54,586	48,042	74,360	100,868	74,686	102,146	26,880
Hire purchase payables		85	85	10	70	110	85	128	34
Current tax liabilities		61	72	83	125	439	125	439	116
Amount owing to holding company	16	0	0	78	0	0	0	0	0
Amount owing to former holding company	20	1,641	1,831	0	0	0	0	0	0
Amount owing to former related companies	20	2,256	2,716	648	0	0	0	0	0
Amount owing to an associated company		0	0	0	0	0	0	202	53
Borrowings (secured)	21	2,200	2,200	0	0	47,728	0	47,728	12,560
		48,447	61,490	48,861	74,555	149,145	74,896	150,643	39,643
NET CURRENT (LIABILITIES)/ASSETS . . .		(23,143)	(13,690)	(10,567)	8,463	37,408	7,925	36,341	9,563

The accompanying notes on pages F-13 to F-41 form an integral part of the financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS — (Continued)

		Company					Group		
		As at 31 March		As at 30 June					
	Note	2000	2001	2002	2003	2004	2003	2004	2004
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	USD'000
NON CURRENT LIABILITIES									
Deferred tax liabilities	13	0	0	0	0	1,113	0	1,113	293
Hire purchase payables		111	25	0	269	180	348	239	63
Loan from former holding company (unsecured)	22	64,037	92,726	0	0	0	0	0	0
Borrowings (secured)	21	0	0	0	0	47,728	0	47,728	12,560
		64,148	92,751	0	269	49,021	348	49,080	12,916
		(85,840)	(104,978)	2,575	49,032	150,550	49,078	150,280	39,547
CAPITAL AND RESERVES									
Share capital	23	52,070	52,070	161,286	161,286	175,127	161,286	175,127	46,086
Share application monies	23	0	0	0	27,617	0	27,617	0	0
Share premium	24	0	0	0	0	65,959	0	65,959	17,358
Accumulated losses		(137,910)	(157,048)	(158,711)	(139,871)	(90,536)	(139,873)	(90,806)	(23,897)
SHAREHOLDERS' EQUITY		(85,840)	(104,978)	2,575	49,032	150,550	49,030	150,280	39,547
Minority interest		0	0	0	0	0	48	0	0
		(85,840)	(104,978)	2,575	49,032	150,550	49,078	150,280	39,547

The accompanying notes on pages F-13 to F-41 form an integral part of the financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Issued and fully paid ordinary shares of RM1.00 each		Non-distributable			Distributable	
	Number of shares	Nominal value	RCPS*	Share premium	Share application monies	Accumulated losses	Total
	'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company							
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
	'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
At 30 June 2003	52,070	13,703	28,741	0	7,268	(36,809)	12,903
Conversion of RCPS	109,216	28,741	(28,741)	0	0	0	0
Issuance of shares	13,841	3,642	0	17,358	(7,268)	0	13,732
Net profit	0	0	0	0	0	12,912	12,912
At 30 June 2004	175,127	46,086	0	17,358	0	(23,897)	39,547

* Redeemable Cumulative Preference Shares of RM1.00 each.

The accompanying notes on pages F-13 to F-41 form an integral part of the financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS

	Company					Group		
	As at 31 March		As at 30 June					
	2000	2001	2002	2003	2004	2003	2004	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	USD'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Profit from operations before taxation	(31,293)	(19,117)	(1,607)	11,465	58,387	11,461	58,071	15,281
Adjustments:								
Interest expense	3,075	4,559	213	54	1,229	63	1,236	325
Interest income	(94)	(95)	(198)	(451)	(1,569)	(451)	(1,569)	(413)
Depreciation of property, plant and equipment	619	621	1,372	2,888	11,293	2,934	11,481	3,021
Gain on disposal of property, plant and equipment	(42)	0	(59)	(70)	0	(70)	0	0
Unrealised foreign exchange gain	(4)	(23)	0	0	0	0	0	0
Amortisation of deferred expenditure	0	0	750	1,325	1,442	1,325	1,442	380
Gain on disposal of investments	0	0	0	(338)	218	(338)	218	58
Provision for maintenance	0	0	0	1,296	15,375	1,296	15,375	4,046
Write off of plant and equipment	0	0	0	543	0	543	12	3
	(27,739)	(14,055)	471	16,712	86,375	16,763	86,266	22,701
Changes in operating assets and liabilities:								
(Increase)/decrease in inventories	(1,573)	(121)	816	(171)	(1,690)	(244)	(1,754)	(461)
Decrease/(increase) in trade and other receivables	2,710	(1,388)	(12,066)	(26,234)	(66,694)	(26,322)	(67,279)	(17,705)
Increase/(decrease) in trade and other payables	10,818	13,055	(1,155)	24,374	10,435	24,700	11,503	3,027
Cash generated from operations	(15,784)	(2,509)	(11,934)	14,681	28,426	14,897	28,736	7,562
Interest paid	(3,044)	(232)	(199)	(54)	(1,229)	(63)	(1,236)	(325)
Interest received	92	95	198	451	1,544	451	1,544	406
Tax paid	0	(10)	(45)	(83)	(125)	(83)	(125)	(33)
Net cash (used in)/generated from operating activities	(18,736)	(2,656)	(11,980)	14,995	28,616	15,202	28,919	7,610
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of property, plant and equipment	(99)	(633)	(6,613)	(15,690)	(149,594)	(16,355)	(149,901)	(39,448)
Proceed from disposal of property, plant and equipment	73	0	59	70	0	70	0	0
Net proceeds from disposal of investments	0	0	0	338	6,052	338	6,053	1,593
Purchase of investments	0	0	0	(6,379)	0	(6,379)	0	0
Acquisition of a subsidiary	0	0	0	(50)	0	50	0	0
Net cash used in investing activities	(26)	(633)	(6,554)	(21,711)	(143,542)	(22,276)	(143,848)	(37,855)

The accompanying notes on pages F-13 to F-41 form an integral part of the financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS — (Continued)

	Company					Group		
	As at 31 March		As at 30 June					
	2000	2001	2002	2003	2004	2003	2004	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	USD'000
CASH FLOWS FROM FINANCING ACTIVITIES								
Hire purchase instalments paid	(105)	(105)	(100)	(43)	(49)	(43)	(66)	(17)
Advances from current/former holding company	25,269	24,381	78	0	0	0	0	0
Payments to holding company	0	0	0	(766)	0	(766)	0	0
Advance to subsidiaries	0	0	0	(441)	0	0	0	0
Fixed deposits pledged as securities	0	0	0	(961)	(6,597)	(961)	(6,597)	(1,736)
Receipt of share application monies	0	0	0	27,617	0	27,617	0	0
Proceeds from allotment of shares	0	0	0	0	52,183	0	52,183	13,732
Proceeds from borrowings	0	0	0	0	95,456	0	95,456	25,120
Repayment of revolving credits	0	0	(2,200)	0	0	0	0	0
Net cash generated from/(used in) financing activities	25,164	24,276	(2,222)	25,406	140,993	25,847	140,976	37,099
NET INCREASE/(DECREASE) FOR THE FINANCIAL YEAR	6,402	20,987	(20,756)	18,690	26,067	18,773	26,047	6,854
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	7,136	13,538	34,525	13,769	32,459	13,769	32,542	8,564
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	13,538	34,525	13,769	32,459	58,526	32,542	58,589	15,418

The accompanying notes on pages F-13 to F-41 form an integral part of the financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

GENERAL INFORMATION

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 Air Asia 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 shareholdings in the Company after the conversion are as follows:

Shareholders	Ordinary shares No. of units '000	%
Tune Air	129,204	73.8
IDBIF Malaysia Investments Ltd	17,513	10.0
Crescent Air Asia 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	*	*
	175,127	100.0

* 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

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.

AIRASIA BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A BASIS OF PREPARATION

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.

B 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.

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.

AIRASIA BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

(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.

C 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.

D 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

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 (E) 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.

E 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.

F 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.

G 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.

H 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.

I 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.

AIRASIA BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

J 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.

K 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.

L 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.

M 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.

N 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.

O 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.

P 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.

AIRASIA BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Q 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.

R 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.

S FOREIGN CURRENCIES

(i) Reporting Currency

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

(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:

	As at 31 March		As at 30 June		
Foreign currency	**2000**	**2001**	**2002**	**2003**	**2004**
	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
Baht (“B$”)	*	*	*	*	0.10

* Not applicable

AIRASIA BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

T 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.

U 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.

AIRASIA BERHAD
(Incorporated in Malaysia)

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
	149,285	167,749	217,421	329,360	389,120	330,040	392,690

2 COST OF SALES

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
	171,994	176,463	208,147	288,362	276,796	288,490	279,119

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).

3 ADMINISTRATION EXPENSES

	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
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
	2,862	3,523	7,936	22,546	32,993	23,061	34,351

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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 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
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)

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

AIRASIA BERHAD
(Incorporated in Malaysia)

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:

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

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	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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

6 FINANCE COSTS

	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
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
	3,075	4,559	308	75	3,124	84	3,131

7 TAXATION

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

The explanation of the relationship between tax expense and profit from ordinary activities before tax is 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
(Loss)/profit before taxation	(31,293)	(19,117)	(1,607)	11,465	58,387	11,461	58,071
Tax calculated at Malaysian tax rate of 28%	(8,762)	(5,353)	(450)	3,210	16,348	3,209	16,260
Tax effects of:							
— recognition of previously unrecognised tax liability/(benefits)	8,064	3,016	170	(4,924)	(9,803)	(4,924)	(9,803)
— expenses not deductible for tax purpose	759	2,358	330	1,934	2,066	1,935	2,066
— income not subject to tax	0	0	0	(95)	0	(95)	0
— (over)/under accrual in prior years (net)	(26)	0	6	0	0	0	0
— recognition of deferred tax assets (Note 13)	0	0	0	(7,500)	(10,322)	(7,500)	(10,322)
— temporary difference not recognised	0	0	0	0	10,763	0	10,851
Tax expense	35	21	56	(7,375)	9,052	(7,375)	9,052

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

AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The amount of temporary differences and unutilised tax losses available for set off against future chargeable income for which the related tax effects have not been included in net income comprise:

	Company					Group	
	2000	2001	2002	2003	2004	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Unutilised tax losses	36,685	36,685	36,685	36,685	0	36,685	0
Temporary differences	21,010	44,870	62,855	74,449	77,878	74,651	77,878

8 (LOSS)/EARNINGS PER SHARE

(a) Basic Earnings per Share

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

	Company					Group	
	Year ended 31 March		15 months ended 30 June	Year ended 30 June			
	2000	2001	2002	2003	2004	2003	2004
Net (loss)/profit after taxation (RM'000)	(31,328)	(19,138)	(1,663)	18,840	49,335	18,838	49,067
Weighted average number of ordinary shares in issue ('000)	52,070	52,070	52,070	52,070	76,338	52,070	76,338
(Loss)/earnings per share (sen)	(60.2)	(36.8)	(3.2)	36.2	64.6	36.2	64.3

(b) Diluted Earnings per Share

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

	Company					Group	
	Year ended 31 March		15 months ended 30 June	Year ended 30 June			
	2000	2001	2002	2003	2004	2003	2004
Net (loss)/profit after taxation (RM'000)	(31,328)	(19,138)	(1,663)	18,840	49,335	18,838	49,067
Weighted average number of ordinary shares in issue ('000)	52,070	52,070	52,070	52,070	76,338	52,070	76,338
Adjustment for conversion of RCPS	0	0	6,284	109,216	98,145	109,216	98,145
Weighted average number of ordinary shares for diluted earnings per share ('000)	52,070	52,070	58,354	161,286	174,483	161,286	174,483
Diluted (loss)/earnings per share (sen)	(60.2)	(36.8)	(2.8)	11.7	28.3	11.7	28.1

AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

9 PROPERTY, PLANT AND EQUIPMENT

Company	As at 1 April 1999	Additions	Disposals	Depreciation charge	As at 31 March 2000
	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value					
Furniture and fittings	207	12	0	(55)	164
Motor vehicle	419	0	0	(176)	243
Office equipment	832	30	0	(246)	616
Office renovation	383	57	0	(104)	336
Operating plant and ground equipment	161	0	(31)	(38)	92
	2,002	99	(31)	(619)	1,451

	As at 1 April 2000	Additions	Disposals	Depreciation charge	As at 31 March 2001
	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value					
Furniture and fittings	164	60	0	(59)	165
Motor vehicle	243	0	0	(106)	137
Office equipment	616	246	0	(270)	592
Office renovation	336	327	0	(148)	515
Operating plant and ground equipment	92	0	0	(38)	54
	1,451	633	0	(621)	1,463

	As at 1 April 2001	Additions	Disposals	Depreciation charge	As at 30 June 2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value					
Aircraft spares	0	4,073	0	(407)	3,666
Furniture and fittings	165	61	0	(81)	145
Motor vehicle	137	0	0	(129)	8
Office equipment	592	1,810	0	(409)	1,993
Office renovation	515	428	0	(241)	702
Operating plant and ground equipment	54	241	0	(105)	190
	1,463	6,613	0	(1,372)	6,704

	As at 1 July 2002	Additions	Write-off	Depreciation charge	As at 30 June 2003
	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value					
Aircraft spares	3,666	9,484	0	(1,377)	11,773
Aircraft fixtures and fittings	0	868	(112)	(118)	638
Furniture and fittings	145	123	0	(77)	191
Motor vehicle	8	779	0	(85)	702
Office equipment	1,993	1,944	0	(754)	3,183
Office renovation	702	1,044	(431)	(358)	957
Operating plant and ground equipment	190	574	0	(119)	645
Assets not yet in operation	0	1,246	0	0	1,246
	6,704	16,062	(543)	(2,888)	19,335

AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

	As at 1 July 2003	Additions	Transfer	Depreciation charge	As at 30 June 2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value					
Aircraft	0	102,120	0	(6,526)	95,594
Aircraft spares	11,773	5,492	0	(1,737)	15,528
Aircraft fixtures and fittings	638	2,688	0	(597)	2,729
Furniture and fittings	191	150	0	(73)	268
Hangar building	0	813	1,246	(24)	2,035
Motor vehicle	702	829	0	(275)	1,256
Office equipment	3,183	5,287	0	(1,464)	7,006
Office renovation	957	904	0	(323)	1,538
Operating plant and ground equipment	645	903	0	(274)	1,274
Assets not yet in operation	1,246	30,408	(1,246)	0	30,408
	19,335	149,594	0	(11,293)	157,636

	Cost	Accumulated depreciation	Net book value
	RM'000	RM'000	RM'000
At 31 March 2000			
Furniture and fittings	279	(115)	164
Motor vehicle	819	(576)	243
Office equipment	1,290	(674)	616
Office renovation	552	(216)	336
Operating plant and ground equipment	191	(99)	92
	3,131	(1,680)	1,451
At 31 March 2001			
Furniture and fittings	339	(174)	165
Motor vehicle	819	(682)	137
Office equipment	1,536	(944)	592
Office renovation	879	(364)	515
Operating plant and ground equipment	191	(137)	54
	3,764	(2,301)	1,463
At 30 June 2002			
Aircraft spares	4,073	(407)	3,666
Furniture and fittings	400	(255)	145
Motor vehicle	639	(631)	8
Office equipment	3,346	(1,353)	1,993
Office renovation	1,307	(605)	702
Operating plant and ground equipment	432	(242)	190
	10,197	(3,493)	6,704

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
At 30 June 2003			
Aircraft spares	13,557	(1,784)	11,773
Aircraft fixtures and fittings	756	(118)	638
Furniture and fittings	523	(332)	191
Motor vehicle	1,237	(535)	702
Office equipment	5,290	(2,107)	3,183
Office renovation	1,094	(137)	957
Operating plant and ground equipment	1,006	(361)	645
Assets not yet in operation	1,246	0	1,246
	24,709	(5,374)	19,335
At 30 June 2004			
Aircraft	102,120	(6,526)	95,594
Aircraft spares	19,049	(3,521)	15,528
Aircraft fixtures and fittings	3,444	(715)	2,729
Furniture and fittings	673	(405)	268
Hangar building	2,059	(24)	2,035
Motor vehicle	2,066	(810)	1,256
Office equipment	10,577	(3,571)	7,006
Office renovation	1,998	(460)	1,538
Operating plant and ground equipment	1,909	(635)	1,274
Assets not yet in operation	30,408	0	30,408
	174,303	(16,667)	157,636

Group	As at 1 July 2002 RM'000	Additions RM'000	Write-off RM'000	Depreciation charge RM'000	As at 30 June 2003 RM'000
Net book value					
Aircraft spares	3,666	9,484	0	(1,377)	11,773
Aircraft fixtures and fittings	0	868	(112)	(118)	638
Furniture and fittings	145	123	0	(77)	191
Kitchen equipment	0	232	0	(19)	213
Motor vehicle	8	897	0	(87)	818
Office equipment	1,993	2,225	0	(768)	3,450
Office renovation	702	1,170	(431)	(369)	1,072
Operating plant and ground equipment	190	576	0	(119)	647
Assets not yet in operation	0	1,246	0	0	1,246
	6,704	16,821	(543)	(2,934)	20,048

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(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

	As at 1 July 2003	Additions	Transfer/ Write-off	Depreciation charge	As at 30 June 2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value					
Aircraft	0	102,120	0	(6,526)	95,594
Aircraft spares	11,773	5,492	0	(1,737)	15,528
Aircraft fixtures and fittings	638	2,688	0	(597)	2,729
Furniture and fittings	191	150	0	(73)	268
Hangar building	0	813	1,246	(24)	2,035
Kitchen equipment	213	111	(12)	(60)	252
Motor vehicle	818	850	0	(301)	1,367
Office equipment	3,450	5,437	0	(1,541)	7,346
Office renovation	1,072	929	0	(351)	1,650
Operating plant and ground equipment	647	903	0	(271)	1,279
Assets not yet in operation	1,246	30,408	(1,246)	0	30,408
	20,048	149,901	(12)	(11,481)	158,456

	Cost	Accumulated depreciation	Net book value
	RM'000	RM'000	RM'000
At 30 June 2003			
Aircraft spares	13,557	(1,784)	11,773
Aircraft fixtures and fittings	756	(118)	638
Furniture and fittings	523	(332)	191
Kitchen equipment	232	(19)	213
Motor vehicle	1,355	(537)	818
Office equipment	5,571	(2,121)	3,450
Office renovation	1,220	(148)	1,072
Operating plant and ground equipment	1,008	(361)	647
Assets not yet in operation	1,246	0	1,246
	25,468	(5,420)	20,048
At 30 June 2004			
Aircraft	102,120	(6,526)	95,594
Aircraft spares	19,049	(3,521)	15,528
Aircraft fixtures and fittings	3,444	(715)	2,729
Hangar building	2,059	(24)	2,035
Kitchen equipment	332	(80)	252
Furniture and fittings	673	(405)	268
Motor vehicle	2,206	(839)	1,367
Office equipment	11,026	(3,680)	7,346
Office renovation	2,149	(499)	1,650
Operating plant and ground equipment	1,892	(613)	1,279
Assets not yet in operation	30,408	0	30,408
	175,358	(16,902)	158,456

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Included in the property, plant and equipment of the Group and the Company are motor vehicles on hire purchase with the following net book values:

	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
Net book value							
Motor vehicles on hire purchase . . .	172	95	7	419	425	535	502

10 INVESTMENT IN SUBSIDIARY COMPANY

	As at 30 June	
	2003	2004
	RM'000	RM'000
Unquoted investment, at cost	50	50

Details of the subsidiary, which are held directly by the Company, are as follows:

Name	Country of incorporation	Effective equity interest 2003	Effective equity interest 2004	Principal activities
		%	%	
Crunchtime Culinary Services Sdn. Bhd. ('Crunchtime')	Malaysia	50.001	50.001	Provision of inflight meals

11 INVESTMENT IN AN ASSOCIATED COMPANY

	Group As at 30 June 2004
	RM'000
Unquoted investment, at cost	202
Group's share of losses.	(116)
	86
Represented by:	
Share of net assets	86

Details of the associate, which is held by the subsidiary of the Company, are as follows:

Name	Country of incorporation	Effective equity interest 2004	Principal activity
		%	
Thai Crunch Time Co. Ltd ('Thai Crunch Time')	Thailand	24.5	Provision of inflight meals

On 12 April 2004, Crunchtime subscribed for 196,000 ordinary shares of B$10 each in Thai Crunch Time for a consideration of B$1,960,000 representing 49% of the total issued and paid-up share capital of Thai Crunch Time. As a result, the Company holds 24.5% equity interest in Thai Crunch Time which is equity accounted for as an associate of the Company.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

12 OTHER INVESTMENTS

	Company			Group and Company	
	As at 31 March		As at 30 June		
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Investment in recreational golf clubs	0	0	0	114	108
Unquoted investment with a fund management company, at cost	0	0	0	6,265	0
	0	0	0	6,379	108

The investment with a fund management company relates to a portfolio of investments undertaken on behalf of the Company by Intrinsic Capital Management Sdn. Bhd., a company in which a director of the Company has a financial interest. The Company paid RM107,005 for the financial year ended 30 June 2004, RM35,000 for the financial year ended 30 June 2003 and RM3,045 for the 15 months ended 30 June 2002 as management fee to Intrinsic Capital Management Sdn. Bhd.

13 DEFERRED TAX ASSETS/(LIABILITIES)

	Company			Group and Company	
	As at 31 March		As at 30 June		
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	0	0	0	7,500	0
Deferred tax liabilities	0	0	0	0	(1,113)
	0	0	0	7,500	(1,113)

The movement on the deferred tax asset is as follows:

At start of period/year	0	0	0	0	7,500
Credited to income statement (Note 7)	0	0	0	7,500	(8,613)
At end of period/year	0	0	0	7,500	(1,113)
Deferred tax assets (before offsetting):					
Property, plant and equipment	0	0	0	677	0
Tax losses	0	0	0	6,823	10,322
	0	0	0	7,500	10,322
Offsetting	0	0	0	0	(10,322)
Deferred tax assets (after offsetting)	0	0	0	7,500	0
Deferred tax liabilities (before offsetting):					
Property, plant and equipment	0	0	0	0	11,435
Offsetting	0	0	0	0	(10,322)
Deferred tax liabilities (after offsetting)	0	0	0	0	1,113

The deferred tax assets was recognised at 30 June 2003 due to the availability of unutilised capital allowances and deductible temporary difference arising from the Year of Assessment 2003 of RM26,800,000.

14 DEFERRED SHARE ISSUE EXPENSE

The share issue expense arose in connection with the proposed listing of the entire issued and paid-up capital of the Company in the Main Board of Bursa Malaysia Securities Berhad.

AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

15 TRADE AND OTHER RECEIVABLES

	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
Trade receivables	10,161	10,977	11,981	13,863	12,338	13,863	12,338
Allowance for doubtful debts	(4,525)	(4,137)	(4,801)	(531)	(82)	(531)	(82)
	5,636	6,840	7,180	13,332	12,256	13,332	12,256
Prepayments	223	660	131	4,201	3,444	4,201	3,480
Deposits	3,256	3,010	8,554	15,574	44,652	15,574	44,694
Other receivables	7	0	6,711	13,242	53,238	13,330	53,517
	9,122	10,510	22,576	46,349	113,590	46,437	113,947

Included in other receivables is an amount owing by the former holding company, Hicom, of RM5,769,095 as at 30 June 2002, 30 June 2003 and 30 June 2004. The amount owing is unsecured, interest free and not subject to any fixed terms of repayment. This balance relates to liability paid by the Company on behalf of its former holding company, Hicom, whereby the Company and Hicom would bear the liability of the Company prior to the acquisition by Tune Air on a one to one basis. Both parties have agreed that the amount is to be recovered on resolution of the withholding tax issue as disclosed in Note 27 of this Report.

Included in other receivables are also amount due from related companies, AAIL of RM20 million and Thai AirAsia of RM17 million respectively. The amounts are unsecured, interest free and have no fixed term of repayment. The amount due from AAIL is fully converted to equity upon the subscription of shares in AAIL as disclosed in note 33 of this report.

The normal credit terms of the Company range from 31 to 60 days.

The trade and other receivables are denominated in Ringgit Malaysia except for certain balances in which the foreign currency exposure are as follows:

	Group and Company As at 30 June	
	2003	2004
	RM'000	RM'000
USD	15,676	27,260
SGD	146	0

The comparative information for the previous financial periods in respect of foreign currency exposure profile is not available and therefore not presented.

16 AMOUNT OWING BY/(TO) HOLDING COMPANY

The amounts owing to Tune Air are unsecured, interest free and not subject to fixed terms of repayment.

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

17 AMOUNT OWING BY A SUBSIDIARY COMPANY

The amount owing is unsecured, interest free and not subject to fixed terms of repayment.

18 DEPOSITS, BANK AND CASH BALANCES

	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
Cash and bank balances	880	9,867	11,653	15,018	26,423	15,101	26,486
Fixed deposits with licensed bank	658	658	2,052	993	7,558	993	7,558
Deposits with discount houses	12,000	24,000	64	0	0	0	0
Short-term deposits with a fund management company	0	0	0	17,409	32,103	17,409	32,103
	13,538	34,525	13,769	33,420	66,084	33,503	66,147
Fixed deposits pledged as securities	0	0	0	(961)	(7,558)	(961)	(7,558)
Cash and cash equivalents	13,538	34,525	13,769	32,459	58,526	32,542	58,589

The short-term deposit with a fund management company relates to a portfolio of investments undertaken on behalf of the Company by Intrinsic Capital Management Sdn. Bhd., a company in which a director of the Company has a financial interest.

The fixed deposits with the licensed bank are pledged as security for banking facilities granted to the Company. The weighted average effective interest rates of deposits at the balance sheet dates were as follows:

	Company					Group	
	As at 31 March		As at 30 June				
	2000	2001	2002	2003	2004	2003	2004
	%	%	%	%	%	%	%
Fixed deposits with a licensed bank	3.20	3.45	3.20	3.22	3.82	3.22	3.82
Short-term deposits with a fund management company	0	0	2.65	2.70	2.10	2.70	2.10

Maturity of the deposits range from 30 – 365 days.

19 TRADE AND OTHER PAYABLES

	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
Trade payables	28,589	42,110	20,757	34,675	10,189	34,775	11,155
Other payables and accruals	1,182	1,056	9,824	14,970	47,107	15,196	47,419
Sales in advance	6,464	2,787	7,024	14,278	33,135	14,278	33,135
Withholding tax (Note 27)	5,969	8,633	10,437	10,437	10,437	10,437	10,437
	42,204	54,586	48,042	74,360	100,868	74,686	102,146

Credit terms of trade payables granted to the Group and Company is 30 days.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The trade and other payables are denominated in Ringgit Malaysia except for certain balances in which the foreign currency exposure are as follows:

	Group and Company As at 30 June	
	2003	2004
	RM'000	RM'000
USD	6,566	2,290
SGD	5,206	27
GBP	172	0

The comparative information for the previous financial periods in respect of foreign currency exposure profile is not available and therefore not presented.

20 AMOUNT DUE TO FORMER HOLDING AND RELATED COMPANIES

The amounts owing to the former holding company, Hicom and its fellow subsidiaries are unsecured, interest free and has no fixed terms of repayment.

21 BORROWINGS (SECURED)

	Company			Group and Company	
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Current					
Revolving credit (secured)	2,200	2,200	0	0	47,728
Non-current					
Term loan (secured)	0	0	0	0	47,728
Total borrowings	2,200	2,200	0	0	95,456

The borrowings are denominated in Ringgit Malaysia.

The maturity period of non-current borrowing does not exceed 2 years.

(a) Revolving Credit Facility

The existing revolving credit facility carried interest rates ranging from 5.8% to 6.2% in 2001 (2000: 6.2% to 10.5%) per annum and is secured against a debenture created over the Company's fixed and floating assets. The revolving credit loan was drawn down for working capital purposes. Subsequent to 31 March 2001, the Company has not drawn on this facility. The amount is fully repaid during the financial period ended 30 June 2002.

During the financial year ended 30 June 2004, the Company entered into a new financing agreement with Public Bank Berhad for a revolving credit facility to finance the purchase of 2 aircraft. The revolving credit facility was drawndown in 2 tranches on 31 March 2004 and 28 May 2004, at the lower of RM25 million or amount equivalent to 80% of the total market value of each aircraft, respectively. The amount drawndown under the revolving credit facility is secured against the Standby Letter of Credit ("SBLC") from DBS Bank Ltd, Labuan Branch, to cover total indebtedness under the revolving credit facility, with security coverage of one to one basis.

The revolving credit has a tenure period of 1 year and is repayable on demand. The interest on the revolving credit facility is 0.3% per annum above the bank's cost of funds. The effective interest rate of the revolving credit at the end of the financial year is 3.29%.

(b) Term Loan

During the financial year ended 30 June 2004, the Company entered into a financing agreement with Southern Bank Berhad for a 2-year term loan to finance the purchase of 2 aircraft. The term loan was drawndown on 31 January 2004 at the lower of RM50 million or of such amount equivalent to 80% of the total market value of 2 aircraft. This facility requires the Company to maintain its total net debt to total net worth at a ratio not exceeding 1.75 times, EBITDAR to debt service ratio not less than 1.5 times and net worth not less than RM100 million at all times. Total net worth as defined in the agreement equals to the aggregate amount of the paid up capital, share premium, other reserves and retain earnings of the Company. Total net debt as defined in the agreement includes aggregate amount of all borrowed money indebtedness and the present value of non-cancellable operating lease commitment calculated using a discount rate of 8% per annum, less any cash and fixed deposits of the Company.

The term loan is repayable on 31 December 2006 or 2 years from the first drawdown date or upon drawdown of a proposed Islamic Bond Issue. The interest on the term loan is 1.5% per annum above the bank's effective cost of fund, which is determined by the Kuala Lumpur Inter-Bank Offered Rate for the relevant tenure, commencing on the drawdown date for a period of 3 months.

The term loan is secured by the following:

(i) Statutory legal mortgage over 2 of the aircraft of the Company

(ii) Specific debenture over each aircraft

(iii) Assignment of insurance for each of the aircraft

(iv) Negative pledge of all assets of the Company

The effective interest rate of the term loan at the end of the financial year is 4.80%.

22 LOAN FROM FORMER HOLDING COMPANY (UNSECURED)

The loan from the former holding company, Hicom, carried interest at rates ranging from 3.90% to 6.15% (2000: 4.10% to 8.60%) per annum was unsecured.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

23 SHARE CAPITAL

At 30 June 2004, the authorised and issued share capital were as follows:

	Company			Group and Company	
	As at 31 March		As at 30 June		
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Authorised ordinary shares of RM1.00 each:					
At beginning of the year/period	200,000	200,000	200,000	80,000	80,000
Converted to RCPS	0	0	(120,000)	0	0
Increase during the year	0	0	0	0	300,000
Redemption of RCPS	0	0	0	0	120,000
At end of the year/period	200,000	200,000	80,000	80,000	500,000
Authorised RCPS of RM1.00 each:					
At beginning of the year/period	0	0	0	120,000	120,000
Created during the year/period	0	0	120,000	0	0
Redesignated as ordinary shares	0	0	0	0	(120,000)
At end of the year/period	0	0	120,000	120,000	0
Total authorised shares	200,000	200,000	200,000	200,000	500,000
Issued and fully paid up ordinary shares of RM1.00 each:					
At beginning of the year/period	60,800	60,800	52,070	52,070	52,070
Cash in arrears	(8,730)	(8,730)	0	0	0
Issued during the year	0	0	0	0	13,841
Redemption of RCPS	0	0	0	0	109,216
At end of the year/period	52,070	52,070	52,070	52,070	175,127
Issued and fully paid up RCPS of RM1.00 each:					
At beginning of the year/period	0	0	0	109,216	109,216
Issued during the year	0	0	109,216	0	0
Redesignated as ordinary shares	0	0	0	0	(109,216)
At end of the year/period	0	0	109,216	109,216	0
Total issued and fully paid up shares	52,070	52,070	161,286	161,286	175,127

On 10 June 2002, the Company issued 109,216,000 new redeemable preference shares of RM1.00 each at par by way of conversion of the loan from the former holding company.

On 18 July 2003, the Company increased its issued and paid-up share capital from RM161,285,936 to RM175,127,328 by the allotment of 13,841,392 new ordinary shares of RM1.00 each at an issue price of RM5.765 per share. The new ordinary shares issued rank pari passu in all respects with the existing ordinary shares of the Company. The share application monies arose on receipt of proceeds prior to the actual issuance of the shares on 18 July 2003.

The RCPS have no voting rights, no entitlement to any preferential dividend and the redemption of the RCPS is at the sole option of the Company.

The RCPS holders have an option to convert any outstanding preference shares into fully paid-up ordinary shares on a one-for-one basis upon request of the RCPS holders if agreed by the Directors and the holders of three-fourths of the ordinary shares of the Company. The RCPS holders had the right on a winding up or other return of capital of repayment, in priority to any payment to the holders of any other shares in the capital of the Company, of the amounts paid up on the RCPS held by them but not the right to any further participation in the profits or assets of the Company.

On 24 May 2004, all outstanding RCPS of RM1.00 each was converted at par into new ordinary shares of RM1.00 each in the Company, giving 175,127,328 ordinary shares in issue and nil RCPS in issue.

24 SHARE PREMIUM

	Group and Company 2004
	RM'000
Relating to:	
— ordinary shares	65,959

25 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

The related parties and their relationship with the Company are as follows:

Company	Relationship
Hicom Holdings Berhad	Former holding company
Hicom Berhad	Subsidiary of the former holding company
KL Airport Services Sdn Bhd	Subsidiary of the former holding company

In addition to related party disclosures mentioned elsewhere in the report, set out below are other significant related party balances and transactions. The related party transactions described below were carried out on terms and conditions obtainable in transactions with unrelated parties unless otherwise stated.

	Company		
	2000	2001	2002
	RM'000	RM'000	RM'000
(a) Provisions of ground handling services by KL Airport Services Sdn Bhd (former fellow subsidiary company)	6,700	5,273	2,786
(b) Provision of inflight catering services provided by KL Airport Services Sdn Bhd (former fellow subsidiary company)	761	3,909	2,236
(c) Interest expense charged by Hicom Holdings Berhad (former holding company)	2,838	4,308	0

26 COMMITMENTS

(a) Capital Commitments for Property, Plant and Equipment:

	Company			Group and Company	
	As at 31 March		As at 30 June		
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Approved and contracted for	0	0	0	94,247	29,760

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(b) Non-cancellable Operating Leases

The future minimum lease payments under non-cancellable operating leases are:

	Company		Group and Company		
	As at 31 March		As at 30 June		
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	24,402	17,505	47,637	39,125	58,319
Later than 1 year and not later than 5 years	44,910	27,405	100,566	131,472	185,662
Later than 5 years	0	0	0	12,768	58,240
	69,312	44,910	148,203	183,365	302,221

27 CONTINGENT LIABILITIES

The Company had made an application to the government for the waiver of withholding tax payable on the lease payments for the aircraft of the Group and the Company. The Company has accrued RM10,390,276 as disclosed in Note 19 of this Report. The Directors are of the opinion that the Company's application will receive due consideration from the government and that a favourable response will be granted. In the event that the application is not successful, the potential shortfall of the provision for withholding tax payable as at 30 June 2004 is approximately RM2,300,000 (2003 and 2002: RM2,300,000).

28 ACQUISITION OF A SUBSIDIARY

On 15 January 2003, the Company acquired 50,001 shares representing a 50.001% equity in Crunchtime for a cash consideration of RM50,000. The acquisition was accounted for using the acquisition method of accounting.

The acquisition had the following effect on the Group's cash flow:

	Group 1 July 2002 to 30 June 2003
	RM'000
Net assets acquired	(100)
Minority interests	50
Cash consideration paid	(50)
Cash acquired	100
Net cash inflow	50

The effect of the acquisition on the financial position of the Group at the end of the financial year ended 30 June 2003 is as follows:

	Group 2003
	RM'000
Plant and equipment	713
Inventories	73
Trade and other receivable	88
Cash and cash equivalents	83
Trade and other payables	(767)
Hire purchase payables	(94)
Increase in net assets of the Group	96

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The effect of the acquisition on the financial results of the Group during the financial year ended 30 June 2003 is shown below:

	Group 1 July 2002 to 30 June 2003
	RM'000
Turnover	680
Cost of sales	(128)
Gross profit	552
Administrative and other operating expenses	(547)
Profit from operations	5
Finance costs	(9)
Loss for the financial year	(4)
Minority interests	2
Decrease in net profit of the Group	(2)

29 FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign currency, credit, market, liquidity and cash flow risks. The Group operates within defined guidelines that are approved and reviewed periodically by the Board to minimise the effects of such volatility on its financial performance. The policies in respect of the major areas of treasury activity are as follows:

(a) Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits and is managed by maintaining a prudent mix of fixed and floating rate investments and borrowings. Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

(b) Foreign Currency Risk

The Group's foreign currency transactions and balances are substantially denominated in USD. The Group's exposure to foreign currency risk mainly arises from its foreign currency denominated operating expenses.

Due to the present Ringgit Malaysia exchange rate is pegged against the USD, the Directors are of the opinion that the Group's exposure to currency risk is not significant.

(c) Credit Risk

The Group's exposure to credit risks, or the risk of counterparties defaulting arises mainly from cash deposits and receivables. The maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet. Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised by monitoring receivables regularly.

The Group generally has no concentration of credit risk except for a debt owed by two customers which constituted approximately 83.4% of the Group's outstanding trade receivables at the end of 30 June 2004. However, the Directors are of the opinion that the Group's exposure to credit risk have been fully provided for.

(d) Market Risk

The Group has investments which are subject to market risk as the market values of these investments are affected by changes in market prices. The Group seeks to manages its exposure to market risk by maintaining a portfolio of equities with different risk profiles.

The Group is also exposed to market risk arising from the fluctuations in the prices of jet fuel as a result of actual or disruptions in supply. It seeks to hedge 100% of its fuel requirements and implements various fuel management strategies in order to manage the risk of rising fuel prices. This includes entering into jet fuel derivative contracts with a maturity period of 6 months each to partially protect against significant increase in fuel price.

(e) Liquidity and Cash Flow Risks

The Group's policy on liquidity risk management is to maintain sufficient cash and have available funding through adequate amounts of committed credit facilities and credit lines for working capital requirements.

30 FAIR VALUES

The carrying amounts of financial assets and liabilities of the Group and Company at the balance sheet date approximate the fair values of those assets and liabilities.

31 DERIVATIVE FINANCIAL INSTRUMENTS

The Company has a forward contract for the purchase of jet fuel as follows:

	Group and Company	
	2003	**2004**
	RM'000	**RM'000**
Fair value of forward contract	3,041	28,044

The forward contract matures on 31 December 2004 and is to be settled in US Dollar. The unrealised gain on forward contract is deferred until the purchase of fuel is transacted. Subsequent to 30 June 2004, the Company entered into additional hedging arrangement covering periods up to 30 June 2005.

32 PRIOR YEAR ADJUSTMENTS

The financial information included in these financial statements is based on the statutory audited financial statements and accounting records of AirAsia Berhad for the financial years ended 31 March 2000 and 31 March 2001, the 15 months ended 30 June 2002 and the financial years ended 30 June 2003 and 30 June 2004.

Certain figures for the years/period presented have been reclassified, adjusted and/or extended, as compared to the original statutory accounts, as follows:

- Consistent presentation with the financial statements disclosure requirements for the financial year ended 30 June 2004;
- Effects of adjustments due to adoption of the new applicable approved accounting standards issued by the Malaysian Accounting Standards Board ("MASB") during the financial years/period reported; and
- Prior year adjustments arising from certain changes in accounting policies and other adjustments as described in the notes below.

During the year ended 30 June 2004, the Company changed its accounting policy with respect to deferred expenditure, which comprised mainly overhaul and maintenance costs and business development costs. Previously, major overhaul and maintenance expenditure incurred on the leased aircraft's airframe, landing gear, auxiliary power unit, engine and engine life limited parts were deferred when incurred and

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

subsequently amortised. Business development costs were capitalised and amortised over 5 years. With the change in accounting policy, these expenses are expensed to the income statement as incurred.

During the year ended 30 June 2004, the Company reversed certain accruals amounting to RM4,000,000 which were over-provided as at 30 June 2003. The financial statements for the year ended 30 June 2003 have been restated accordingly.

The tax effect of the unutilised capital allowances and deductible temporary difference arising from the Year of Assessment 2003 of RM26,800,000 have been recognised as a deferred tax asset of RM7,500,000, as the directors consider that, as at 30 June 2003, the amount would be realised in view of the existing profitability of the Company. The 2003 financial statements have been amended to recognise this tax benefit.

During the year ended 30 June 2003, the Company changed its capitalisation policy whereby rotable parts with value exceeding RM10,000 were reclassified as property, plant and equipment. The impact of the change in capitalisation policy to the inventory balances prior to 31 March 2001 is not material.

The impact of the change in accounting policies and the reclassifications described above on the original statutory financial statements are summarised as follows:

	Company		Group
Balance sheet	**As at 30 June 2002**	**As at 30 June 2003**	**As at 30 June 2003**
	RM'000	**RM'000**	**RM'000**
Property, plant and equipment (as previously reported)	3,038	19,742	20,455
Prior year adjustment	3,666	(407)	(407)
Property, plant and equipment (as restated)	6,704	19,335	20,048
Deferred expenditure (as previously reported)	870	15,318	15,318
Prior year adjustment	5,568	(7,744)	(7,744)
Deferred expenditure (as restated)	6,438	7,574	7,574
Inventories (as previously reported)	6,022	2,120	2,193
Prior year adjustment	(4,073)	0	0
Inventories (as restated)	1,949	2,120	2,193
Trade receivables (as previously reported)	7,415	13,332	13,332
Prior year adjustment	(235)	0	0
Trade receivables (as restated)	7,180	13,332	13,332
Other receivables (as previously reported)	26,641	50,480	50,568
Prior year adjustment	(11,245)	(17,463)	(17,463)
Other receivables (as restated)	15,396	33,017	33,105
Deferred tax asset (as previously reported)	0	0	0
Prior year adjustment	0	7,500	7,500
Deferred tax asset (as restated)	0	7,500	7,500
Other payables (as previously reported)	20,824	42,390	42,616
Prior year adjustment	7,187	(2,705)	(2,705)
Other payables (as restated)	28,011	39,685	39,911
Shareholders' funds (as previously reported)	16,081	64,441	64,439
Prior year adjustment	(13,506)	(15,409)	(15,409)
Shareholders' funds (as restated)	2,575	49,032	49,030

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

	Company		Group
Income statement	**15 months ended 30 June 2002**	**Year ended 30 June 2003**	**Year ended 30 June 2003**
	RM'000	**RM'000**	**RM'000**
Profit before taxation (as previously reported)	11,899	20,868	20,864
Prior year adjustment	(13,506)	(9,403)	(9,403)
(Loss)/profit before taxation (as restated)	(1,607)	11,465	11,461
Profit after taxation (as previously reported)	11,843	20,743	20,741
Prior year adjustment	(13,506)	(1,903)	(1,903)
(Loss)/profit after taxation (as restated)	(1,663)	18,840	18,838

33 SUBSEQUENT EVENTS

(a) On 5 June 2004, the Company entered into a Subscription Agreement with AAIL for the subscription of 5,260,000 ordinary share of USD1.00 in AAIL for a consideration of USD5,260,000 to be satisfied by way of converting an existing loan of USD5,260,000 owing by AAIL to the Company. The transaction 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 and two associated companies, namely Thai AirAsia Co. Ltd and AirAsia Pte Ltd.

(b) On 6 August 2004, the Company acquired the entire issued and paid up share capital of AirAsia Go Holiday for a consideration of RM200,000. The subsidiary undertakes the tour operation and travel agency businesses.

(c) On 20 August 2004, the Company acquired the entire issued and paid share capital of AirAsia (Mauritius) Limited for a consideration of USD1.00. The principal activity of the subsidiary is the provision of aircraft leasing facilities.

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APPENDIX A

DEFINITIONS

The following terms when used in this document shall bear the same meanings as set forth below unless otherwise defined herein or the context otherwise requires:

Defined Terms

"CAAGR"	means cumulative average annual growth rate
"Director"	means the Directors of the Company, whose names appear on Pages 131 and 132 of this Offering Circular
"EBIT"	Earnings before interest income (expense) and taxation. AirAsia believes that EBIT provides useful information but should not be considered as an indication of, or as an alternative to, profit attributable to shareholders or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBIT in a different manner than AirAsia
EBITDAR	Earnings before interest, taxation, depreciation, amortization and aircraft operating lease expenses. AirAsia believes that EBITDAR provides useful information but should not be considered as an indication of, or as an alternative to, profit attributable to shareholders, or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBITDAR in a different manner than AirAsia
"EBITDAR margin"	calculated by dividing EBITDAR for the relevant period by revenue for such period
"ESOS"	the AirAsia Share Option Scheme I for employees and Directors of the Company
"FlightSpeed"	means Navitaire's OpenSkies FlightSpeed program, a reservation booking software which is used by the call center
"Indochina"	means Cambodia, Laos and Vietnam
"SMS"	means short message service, a service whereby mobile telephone users may send and receive text messages
"Total Net Debt"	means the aggregate amount of all obligations of AirAsia for or in respect of indebtedness and the present value of non-cancelable commitments under operating losses (using a discount rate of 8% per annum) less cash and fixed deposits
"WAP technology"	means wireless application protocol, a uniform technology platform with consistent content formats for delivering Internet- and intranet-based information and services to digital mobile phone and other wireless devices

Technical Terms

""A" checks"	means the basic inspection and routine servicing conducted on an aircraft every 250 hours flown to ensure that the aircraft are in an airworthy state to continue flying
"ASK"	means available seat kilometers, which is the total number of seats available on scheduled flights multiplied by the number of kilometers those seats were flown
"aircraft push back"	means the act of pushing an aircraft back from a gate or away from other aircraft at parking areas, to allow for an aircraft to begin taxiing under its own power

"block hours"	means the time between the departure of an aircraft and its arrival at its destination, as recorded in the aircraft flight log
""C" checks"	means the maintenance performed on an aircraft every 4,000 hours flown (approximately every 11 months)
"cost per ASK"	means total operating expenses (excluding finance costs and taxation) divided by ASK
""D" checks"	means the complete overhaul performed on an aircraft every 24,000 hours flown (approximately every seven years)
"fifth freedom rights"	means the right of an airline to land in one country, pick up passengers and then fly on to another country (rather than back to their country of origin) where the passengers then deplane
"heavy maintenance"	means the "C" and "D" checks performed on an aircraft
"light maintenance"	means daily routine checks on the aircraft, including daily pre-flight checks and overnight checks, as well as "A" checks
"Market Days"	means days on which Bursa Securities is open for trading in securities
"Revenue per ASK"................	means total revenue divided by ASK
"Revenue per RPK"................	means total revenue divided by RPK
"RPK"	means revenue passenger kilometers, which is the number of paying passengers carried on scheduled flights multiplied by the number of kilometers those seats were flown
"slots"	means designated time for landing or taking off of an aircraft at an airport

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