8. OVERVIEW OF THE AVIATION INDUSTRY

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 Prospectus. The information has not been independently verified by the Company, the Promoters, the advisers, the Selling Shareholders, the Joint Bookrunners and the Joint Managing Underwriters 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.

8.1 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 (in RPKs) 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.

8.2 Factors Driving Aviation Activity Levels in Southeast Asia

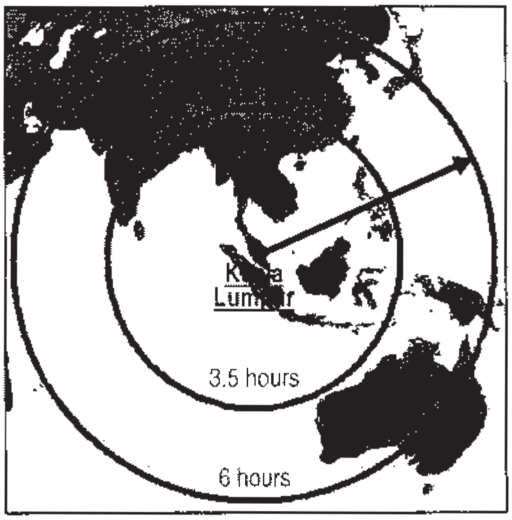
Numerous factors are expected to spur continued aviation activity growth in the Southeast Asian region, including:

- 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.

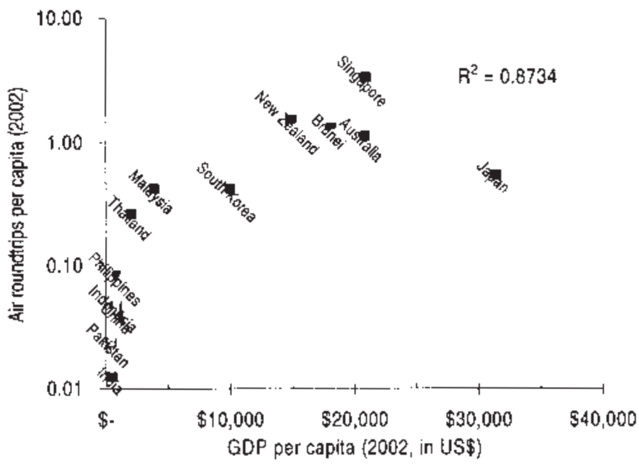
Residents of countries with high per capita levels of gross domestic product ("GDP") tend to travel more, while the opposite is true for residents of countries with low per capita levels of GDP.



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 US$)	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 centres 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

Country	Population 2002 (actual)	Population 2002 to 2015 annual growth	Urbanization (2002) (a)	Population in cities >1 million 2000 (actual) (b)	Population in cities >1 million 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%			

(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.

8.3 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.

8.4 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 operates 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 aircrafts 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

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

8.5 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 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.

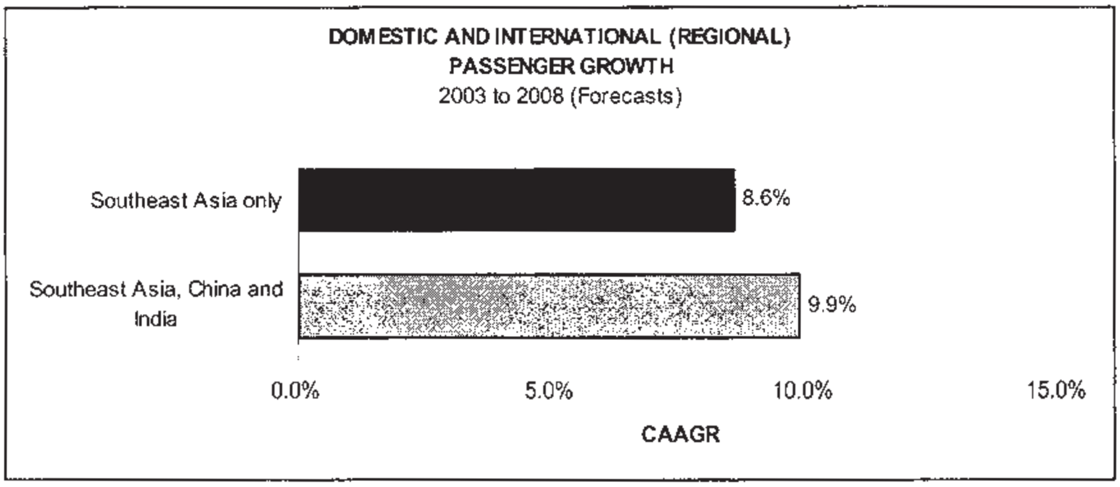
Average annual passenger growth rates with and between select regions in the world are set out in the table below.

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

	CAAGR				
Within regions	1985 to 1990	1990 to 1995	1995 to 2000	2000 to 2002	1985 to 2002
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%

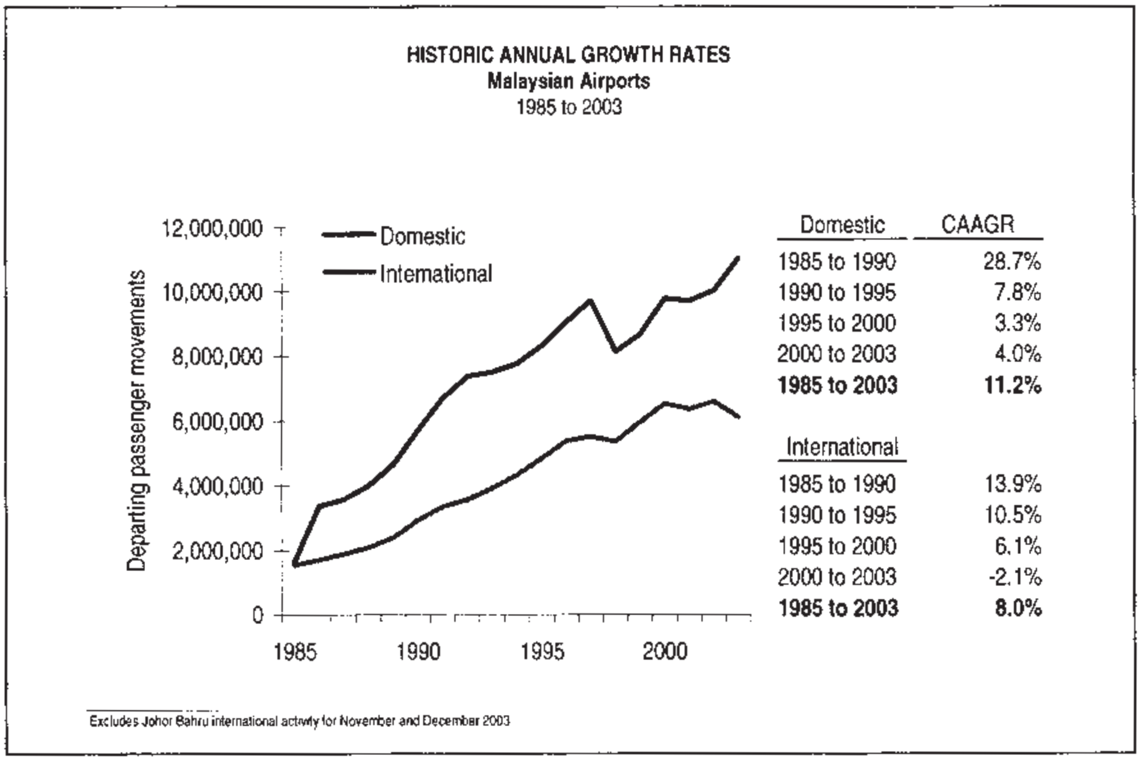
Northeast Asia: Japan, North Korea, and South Korea.
Southeast Asia: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam.

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



8.6 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.



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.

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DOMESTIC DEPARTING PASSENGER MOVEMENTS
Airports in Malaysia
2002 to June 2004

Period	All routes			
	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%

Period	AirAsia routes only (a)			
	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%

(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) 1 January to 30 June 2004 only.
Departing movements are calculated as 50% of total (arriving and departing) movements.

Medium-term forecasts for Malaysia

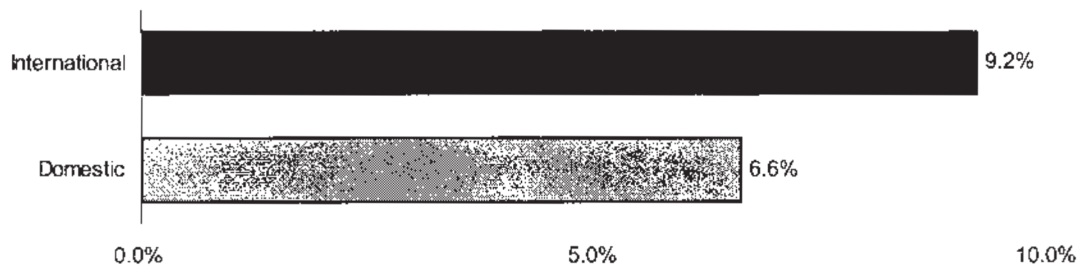
Malaysia's domestic and international markets are expected to enjoy strong growth rates, with international activity growing more rapidly than domestic activity. The country has an excellent tourist infrastructure and good average per capita income levels (77% higher than those in Thailand and 399% higher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

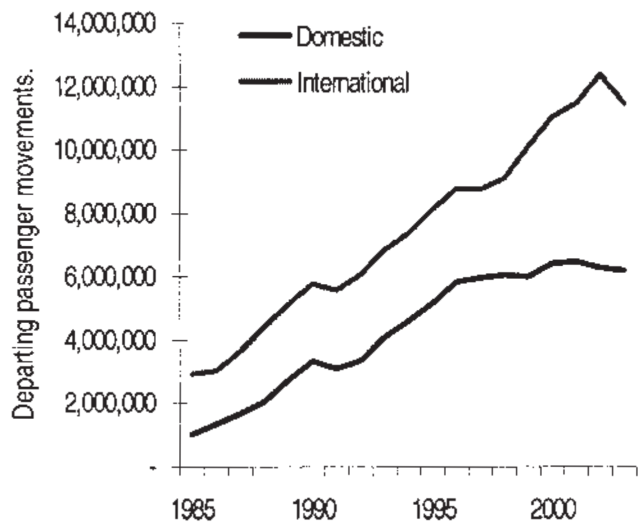
S-A-P's forecasts for domestic and international (only to/from Southeast Asia, China and India) passenger growth rates for Malaysia are summarized in the figure below.



8.7 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 Hat 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 to June 2004

	2004					
Airline	January	February	March	April	May	June
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 share	0.0%	5.3%	6.1%	7.3%	10.7%	11.9%

Note: Excludes passengers transiting/transfering 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.

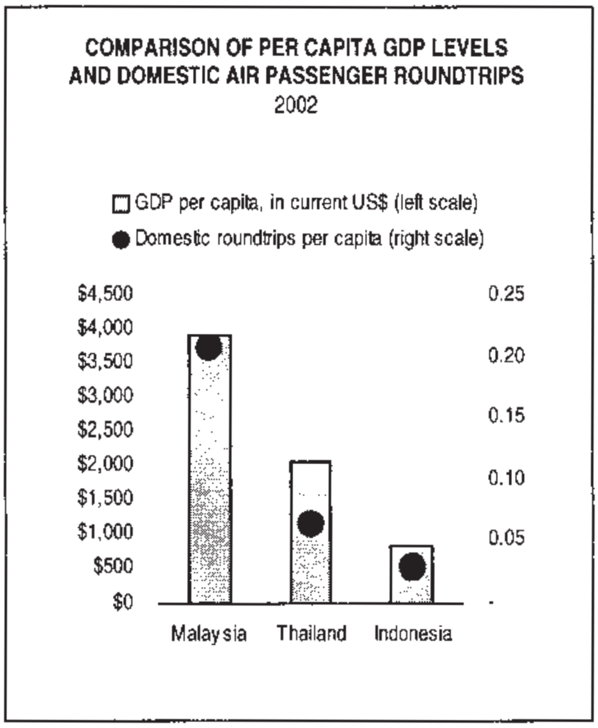
Liberalization of aviation agreements. Thailand has become more liberal with its aviation agreements, recently signing an "open skies" agreement with China. Thailand began liberalization of its domestic markets in 2000.

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.

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.

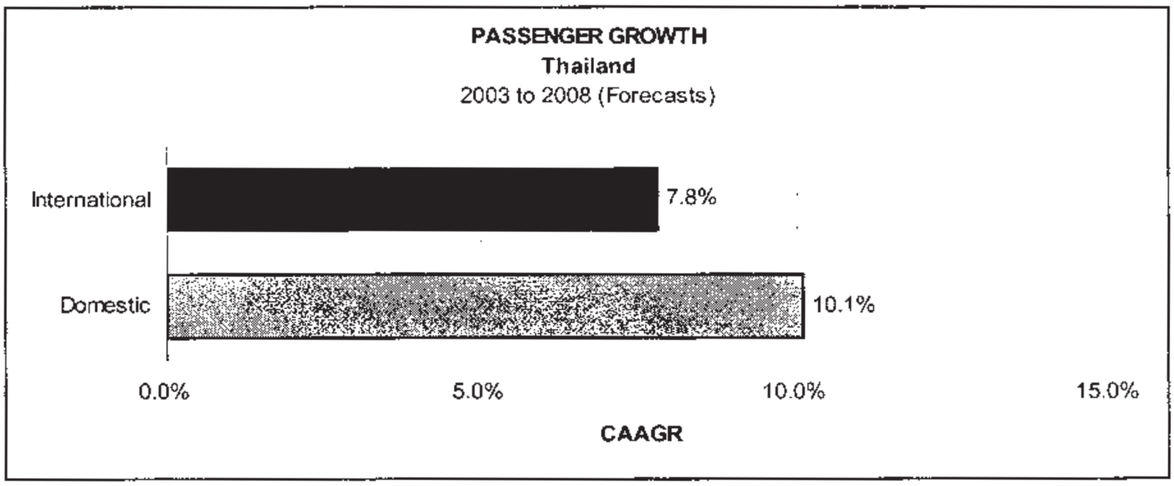


As shown in the figure at right, domestic airline roundtrips per capita for Malaysia and Indonesia in 2002 closely correlate to per capita levels of GDP. This correlation is due, in part, to low average domestic air fares. In Malaysia, the country's low-cost carrier operator served approximately one-half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

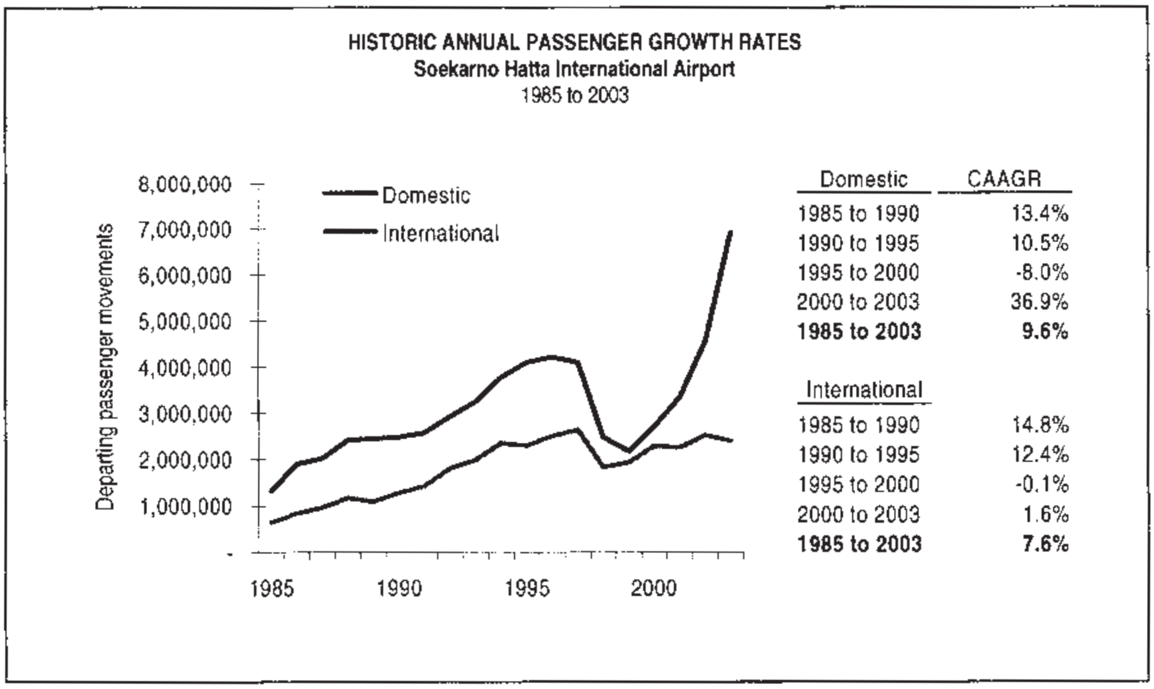
Forecasts of domestic and international (only to/from Southeast Asia, China and India) passenger growth rates for Thailand are summarized in the figure below.



8.8 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.



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.

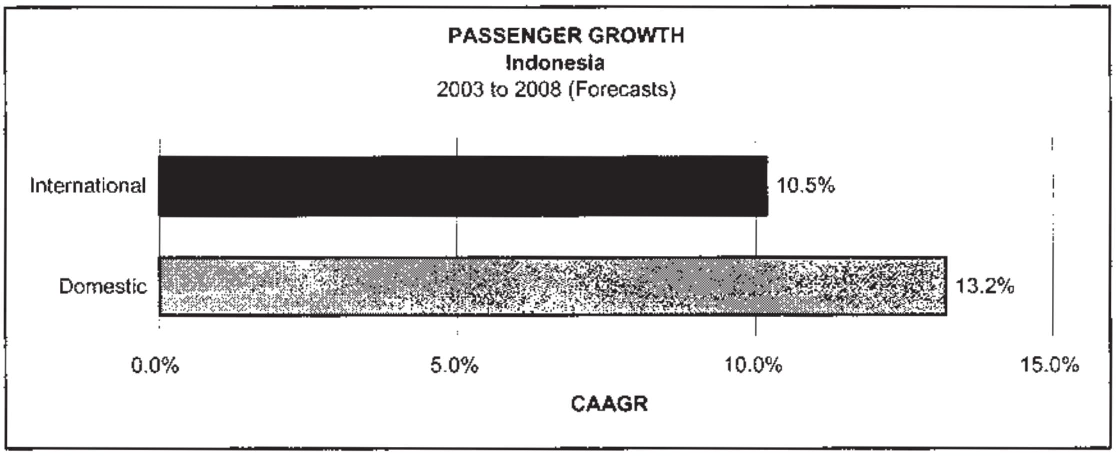
Low per capita income levels. Although the country's per capita income levels are low, the country's total gross national income is the highest in Southeast Asia.

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.



8.9 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 carrier. 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.

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9. REGULATIONS OF THE AIRLINE INDUSTRY IN MALAYSIA

9.1 Regulations of the Airline Industry

The airline industry in Malaysia, as in many countries, is heavily regulated. The authority responsible for overseeing the industry in Malaysia is the DCA.

9.1.1 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.

9.1.2 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 ASL. 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 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.

9.1.3 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.

9.1.4 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 with one another unless a large frequency of flights on a particular sector precludes the provision of an "acceptable" spread between the departures.

9.1.5 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.

9.2 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.

9.3 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:

9.3.1 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	:	1st April 2004
Validity Period	:	5 years from 1st April 2004 to 31st March 2009
Approval Type	:	Approval to operate "Scheduled Air Service (Passengers)"

Some of the conditions imposed in the ASL, are as follows:

(1) "This licence will be revoked if changes to the equity are without prior approval by 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 routes, operate as long as the point of origin is a point in Malaysia";

(4) "In respect of [international approved routes], AirAsia 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 licence is granted subject to the condition that it may be terminated by the Director General of Civil Aviation on giving AirAsia 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";

(9) "The operator must possess a valid Air Operator Certificate [AOC] as stipulated in regulation 24 of the Malaysian Civil Aviation Regulation, 1996 issued by the Department";

(10) "Any new routes either locally or internationally requires prior approval from the Department";

(11) "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 Air Service Licence"; and

(12) "The holder of this Licence must comply with other terms and conditions stipulated by the Director General of Civil Aviation, Malaysia from time to time".

9. REGULATIONS OF THE AIRLINE INDUSTRY IN MALAYSIA *(Cont'd)*

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 FIC'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.

9.3.2 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	:	one year from September 29, 2004 to September 28, 2005
Approval Type	:	"Authorized to operate as an Air Operator and conduct "Scheduled Journeys"

Certificates of Registration and Certificate of Airworthiness

As at September 30, 2004, the Company has a fleet of 22 aircraft with the required Certificates of Registration and Certificates of Airworthiness.

9.3.3 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