5. 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.

5.1 Risks Relating to the Group

5.1.1 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. 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 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 (please refer to Section 7.22 *"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.

AirAsia, nevertheless believes that it will continue to be able to command a significant market share in the market segments that it operates, as a result of its competitive strengths and strategies. For a discussion on AirAsia's competitive strengths and strategies, please refer to Section 7.4 *"Competitive Strengths"* and Section 7.5 *"Strategy"*.

5.1.2 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 acquiring up to 80 aircraft (consisting of 40 purchase obligations and 40 purchase options) from either Airbus or Boeing, please refer to Section 7.15 *"Business – 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 or 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 (for details on AirAsia's brand, please refer to *Section 7.5.5 "Invest in and enhance AirAsia's brand"*). There can be no assurance that the Group will succeed in implementing its strategy of expanding into new markets, please refer to Section 7.7.2 *"Business – 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. (please refer to Section 7.11 *"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.

AirAsia nevertheless believes that it is uniquely positioned as the region's leading low cost carrier, and will continue to be able to experience good growth by leveraging on the Group's competitive strengths and a disciplined approach to the implementation of its strategies. For a discussion on the Group's competitive strengths and strategies, please refer to Section 7.4 *"Competitive Strengths"* and Section 7.5 *"Strategy"*.

5.1.3 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 (please refer to Section 5.1.17 *"Risk Factors — 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 has implemented stringent safety and security policies as measures of prevention as well as to mitigate the negative impacts of potential accidents or terrorist incidents. Further discussion on AirAsia's safety and security policies are provided in Section 7.4.4 *"High maintenance and safety standards"* and Section 7.16 *" Safety and Security"*.

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

Fuel costs constituted approximately 31% 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. Please refer to Section 13.11.1 "*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 all of the Group's expected fuel requirements for the year ending June 30, 2005. There is a risk, however that for all the Group's expected fuel requirements 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 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 (please refer to Section 13.11.1 "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk - Fuel Price Risk*" and Sections 7.18 and 7.28 " *Fuel*" and "*Major Suppliers*" respectively).

5.1.5 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 of up to 80 aircraft, consisting of 40 purchase obligations and 40 purchase options from Airbus or Boeing, 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, please refer to Section 7.17.1 " *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 (please refer to Section 7.17 "*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.

In order to manage the maintenance costs of its fleet, AirAsia has put in place several maintenance and spare parts policies, as well as participated in Boeing's aging aircraft program. For details of AirAsia's maintenance and spare parts policies, as well as its participation in Boeing's aging aircraft program, please refer to Section 7.17 "*Maintenance and Spare Parts*".

5.1.6 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.

AirAsia's strategy includes regional expansion, which will see a decreasing reliance on the Malaysian market. The implementation of this strategy is already well on its way, with Thai AirAsia having commenced operations in February 2004. For more details on AirAsia's regional expansion plans, please refer to Section 7.1 "*Business – Overview*" and for details on Thai AirAsia, please refer to Section 7.29 "*Thai AirAsia's Operations*".

5.1.7 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.

AirAsia believes that it will continue to be able to enjoy a good working relationship with both domestic and international airport operators.

5.1.8 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.

AirAsia has implemented a spare aircraft policy that is in line with the growth needs of its fleet. This spare aircraft is available to serve as back-up in instances of delayed flights. Further details on AirAsia's spare aircraft policies are provided in Section 7.15.1 *"Spare Aircraft"*.

5.1.9 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. Please refer to 7.19 *"Information Technology"*.

AirAsia plans to set up a disaster recovery center by October 2004 to handle server failures.

5.1.10 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 of up to 80 aircraft, consisting of 40 purchase obligations and 40 purchase options from Airbus or Boeing. 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 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. Please refer to Section 7.15 "*Business—Fleet*".

AirAsia believes that it should continue to be able to enjoy a good working relationship with its reputable principal vendors and lessors for the supply of its aircraft and aircraft engines. As AirAsia engages reputable vendors or lessors, the likelihood that they are unable to meet their contractual obligations is reduced. In the unlikely event its principal vendors or lessors are unable to service the Group, the Group is of the view that it would have little difficulty in identifying other reputable vendors or lessors. However, there can be no assurance that the alternative vendors / lessors would be able to provide the Group's preferred quality of aircraft and engines. For details on AirAsia's aircraft as well as engine supply, please refer to Section 7.15 "*Fleet*" and Section 7.17.2 "*Spare parts*".

Furthermore, Boeing 737-300 aircraft and CFM56-3 engines have been widely used across the industry for about 20 years. As such, AirAsia believes that most major technical problems associated to these aircraft and engines would have surfaced and been rectified by their manufacturers. In addition, should any real or perceived problem with Boeing 737-300 aircraft arise, the Group would be able to use other aircraft models in the Boeing 737 series as replacements. For further details, please refer to Section 7.15 "*Fleet*".

5.1.11 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.

AirAsia believes that it will continue to be able to experience good growth through its competitive strengths and strategies. For a discussion on AirAsia's competitive strengths and strategies, please refer to Section 7.4 *"Competitive Strengths"* and Section 7.5 *"Strategy"*.

5.1.12 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 (please refer to Section 7.7.1 *"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 For further details, please refer to Section 5.1.4 *"Risks Relating to the Group-The Group could be materially and adversely affected by the unavailability of sufficient quantities or cost of fuel."*

AirAsia endeavours to decrease its dependencies on any particular vendor by entering into agreements with various reputable vendors at competitive quotes, and shall enter, where possible, into agreements which are long term in nature. In addition, AirAsia is moving towards a model of self reliance for these facilities and services in its international operations.

5.1.13 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.

The Company's current senior management team has been together since the acquisition of the Company by Tune Air in December 2001. In addition, AirAsia prides itself on building a strong, team-focused and genial corporate culture that is unique among Malaysian corporations. AirAsia motivates its employees by awarding bonuses based on each employee's performance, and expects to increase employee loyalty through its ESOS, which will be available to all employees. For further details on AirAsia's management team and corporate culture, please refer to Sections 7.4.6 *" Proven management team"*, and Section 7.4.7 *and "Distinctive corporate culture"*.

5.1.14 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 from 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 increasingly 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 to help keep its costs low (please refer Section 7.4 *"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.

AirAsia prides itself on building a strong, team-focused and genial corporate culture that is unique among Malaysian corporations. For further detail on AirAsia's distinctive corporate culture, please refer to Section 7.4.7 *"Distinctive corporate culture"*.

5.1.15 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.

AirAsia shall comply with the Listing Requirements and the Malaysian Code on Corporate Governance for independent directors in the Board and the Audit, Remuneration and Nomination Committees.

5.1.16 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 expenditure, 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 (please refer to Section 7.15 *"Business—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 expenditure 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 Directors believe that after taking into consideration the expected proceeds from the Initial Public Offering and 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. For details, please refer to Section 4.9 *"Utilization of Proceeds"* and Section 13.8.2 *"Working Capital"*.

5.1.17 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 the Company, to undertake liabilities for damage caused to third parties as a result of, among other things, 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 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 the Company. 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.

AirAsia believes that its current insurance coverage is consistent with industry practices and compliant with the regulator's and lessor's requirements. Further, AirAsia has historically been able to procure relatively favorable rates as a result of its high maintenance and safety track record. Please refer to Section 7.21 *"Insurance"* for further details.

5.1.18 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. Please refer to Section 9 *"Regulation of the Airline Industry in Malaysia"*.

To operate a scheduled airline in Malaysia, the Company is required to hold an 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 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, please refer to Section 9 *"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 current AOC, is valid for as long as it conducts flight operations in accordance with Thai AirAsia's operations manual. However, the AOC authorizes Thai AirAsia to conduct its operations in accordance with the leasing arrangements with the Company for a period until December 14, 2004 utilizing the aircraft as specified in the AOC. 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.

However, since AirAsia commenced operations in 1996, AirAsia's licenses have been renewed promptly. AirAsia does not envisage it would encounter difficulties in renewal of licenses due to its strict adherence to the condition of the licenses.

5.1.19 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 respectively, 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 (please refer to Section 7.29.4 *"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.

AirAsia believes that through the synergies of the joint venture with Shin Corporation which set up Thai AirAsia, Thai AirAsia has been able to start up with a low cost base. Further, AirAsia believes that Thai AirAsia will continue to be able to experience good growth by leveraging on AirAsia's competitive strengths and disciplined approach to the implementation of its strategies. For a discussion on AirAsia's competitive strengths and strategies, please refer to Section 7.4 *"Competitive Strengths"* and Section 7.5 *"Strategy"*. For a description of the advantages that Thai AirAsia enjoys as a startup, please refer to Section 7.29.3 *"Thai AirAsia's Operations — DMA"*.

5.1.20 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.

5.1.21 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. Please refer to Section 5.4.3 *"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"*, Section 9.1.5 *" Regulation of the Airline Industry — International Traffic Rights"*, Sections 4.15 and 19.1 *"Share Capital"*, and Section 19.2 *"Extracts of Articles of Association"*. 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.

5.1.22 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.

5.1.23 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.

AirAsia offers special promotional fares during the non peak periods to stimulate air travel. AirAsia also provides services to countries other than Malaysia (such as Thailand and Indonesia) with different seasonal trends from Malaysia and thus reducing the effect of the seasonality on its passenger seat sales.

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5.2 Risks Relating to the Airline Industry

5.2.1 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 severe acute respiratory syndrome (commonly known as "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.

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 the Group's markets or aggressive pricing by competitors. For further details, please refer to Section 7.4 " *Competitive Strengths* " and Section 7.5 " *Strategy* ".

5.2.2 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.

AirAsia has implemented a security policy as a measure of prevention as well as to mitigate the negative impacts of potential terrorist incidents. Further discussion on AirAsia's security policies are provided in Section 7.16 *"Safety and Security"*.

5.2.3 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 and 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 number of passengers or in the pricing or traffic mix could have a disproportionate effect on an airline's financial performance.

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5.3 Risks Relating to Southeast Asia

5.3.1 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.

5.3.2 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 has been incidence 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. Any change in government policy, changes to senior positions within government and parliament or any political instability 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.

5.3.3 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.

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5.4 Risks Relating to the Shares

5.4.1 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 will be 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 Official List, the Company will endeavor to return the monies paid in respect of any application for Shares without interest, within 14 days after the Company becomes liable to do so. For further details, please refer to Section 5.4.7 *"Risks Relating to Shares - There may be a delay or failure in trading of the Shares"*.

The Shares could trade at prices that may be lower than the Final Retail 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, the respective underwriters for the IPO and Joint Bookrunners 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.

5.4.2 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, please refer to Section 15.2 *"Dividend Forecast"*.

5.4.3 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 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 being exceeded, which might also adversely affect AirAsia's international traffic rights, the Board may take various steps. For example, subject to the requisite regulatory approvals, the Board 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's 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. Please refer to Section 5.1.21 *"Risks Relating to the Group — Failure to maintain its international operating rights would have a material adverse effect on the Group"*, Section 9.1 *"Regulation of the Airline Industry — International Traffic Rights"*, Sections 4.15 and 19.1 *"Share Capital"* and Section 19.2 *"Extracts of Articles of Association"*.

5.4.4 The market price of the Shares may be volatile, which could cause the value of investors' investment 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 Prospectus 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.

5.4.5 Investors in the Initial Public Offering will suffer immediate dilution in NTA

The initial public offering price per Share is higher than the NTA per Share of RM0.42 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 NTA per share basis. The issuance of further ordinary shares (or any other securities pursuant to the ESOS) at prices lower than the then existing NTA per ordinary share would result in further dilution. For further information, please refer to Section 4.11 *"Dilution"*.

5.4.6 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.

To defer this risk, the Company and substantially all of its shareholders (including the Selling Shareholders) will undertake not to transfer or dispose of, directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares of the Company or any part of their interest in the Shares for a period commencing from the date of the lock-up agreement until 180 days after the commencement of trading on the Official List. Please refer to Section 4.14 *"Lock-up Agreement"* for details on the lock-up agreements.

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 the moratorium, please refer to Section 4.13 "Moratorium on Shares" of this Prospectus.

5.4.7 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 Joint Bookrunners and the respective underwriters for the IPO exercising their rights pursuant to the Underwriting Agreement 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 an approximate 25-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 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.

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5.5 Other Risks

5.5.1 The Company's actual results may vary significantly from the 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 this Prospectus. Such forecast of the Company's consolidated profit after tax for the year ending June 30, 2005 is set out in Section 15.1 *"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's 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 Section 5.5.2 "*Risk Factors - Other Risks - Forward-looking statements*" and elsewhere in Section 5 *"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 may differ from such forecast and such differences may be material and may affect the market price of the Shares. 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 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 this Prospectus, including the information set forth elsewhere in Section 5 *"Risk Factors"*.

5.5.2 Forward looking statements

This Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding 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 expenditure 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 regulations, 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 expenditure required for aircraft maintenance and expansion plans;
- changes in law 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 Section 5 *"Risk Factors"*, Section 13 *"Management's Discussion and Analysis of Financial Condition and Results of Operation"* and Section 8 *"Overview of the Aviation Industry"*. The Company cannot give any assurance that the forward-looking statements made in this Prospectus will be realized. Such forward-looking statements are made only as at the date of this Prospectus. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this Prospectus 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.

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6. RESTRUCTURING AND LISTING SCHEME

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

6.1 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 USD1.00 each 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. As a result of the subscription, AAIL became a 99.8% owned subsidiary of the Company effective from July 1, 2004.

Please refer to Section 11.2.4 of this Prospectus for information on AAIL.

6.2 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.

6.3 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), pursuant to the Initial Public Offering. The public issue (which forms an integral part of the Initial Public Offering) was approved by the SC on September 24, 2004 and is subject to the terms and conditions of this Prospectus. Details of the public issue are as follows:

a) 23,350,300 Shares (subject to clawback and reallocation), 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 RM1.40 per Share;

b) 116,751,600 Shares (subject to clawback and reallocation), 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 RM1.40 per Share; and

c) 443,655,900 Shares (subject to clawback and reallocation), representing approximately 19% of the enlarged issued share capital of the Company (before conversion of Options), are available for application by (i) Malaysian institutional and selected investors; (ii) QIBs in the U.S in reliance on Rule 144A; and (iii) in transactions outside the U.S in reliance on Regulation S at the Institutional Price.

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

6.4 Listing and Quotation

An application will be made for the admission of the Company to the Official List 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.