

Company No.

734161

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**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**STATUTORY FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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Company No.

734161

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**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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Company No.

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**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**DIRECTORS' REPORT**

The Directors hereby submit their report together with the audited financial statements of the Group and Company for the financial year ended 31 December 2016.

**DIRECTORS**

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

Tan Sri Rafidah Aziz  
Datuk Kamarudin Bin Meranun  
Tan Sri Dr. Anthony Francis Fernandes  
Lim Kian Onn  
Dato' Fam Lee Ee  
Tan Sri Asmat Bin Kamaludin  
Dato' Yusli Bin Mohamed Yusoff

**PRINCIPAL ACTIVITIES**

The principal activity of the Company is that of providing long haul air transportation services. The principal activities of the subsidiaries are described in Note 16 to the financial statements. There was no significant change in the nature of these activities during the financial year.

**FINANCIAL RESULTS**

	<u>Group</u> RM'000	<u>Company</u> RM'000
Net profit for the financial year	<u>210,314</u>	<u>210,444</u>

**RESERVES AND PROVISIONS**

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

**SHARE CAPITAL AND DEBENTURES**

There was no issuance of shares and debentures during the financial year.

**AIRASIA X BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' BENEFITS**

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the benefits shown under Directors' Remuneration) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 5 and Note 30 to the financial statements.

**DIRECTORS' INTERESTS IN SHARES**

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year except as follows:

	Number of ordinary shares			
	<u>1.1.2016</u>	<u>Acquired/ Transferred</u>	<u>Disposed/ Transferred</u>	<u>31.12.2016</u>
<u>Direct interests in the Company</u>				
Datuk Kamarudin Bin Meranun	337,702,739	-	-	332,702,739
Tan Sri Dr. Anthony Francis Fernandes	87,303,728	-	-	87,303,728
Lim Kian Onn	196,783,356	-	(196,783,356)	-
Tan Sri Rafidah Aziz	175,000	-	-	175,000
Tan Sri Asmat Bin Kamaludin	175,000	122,400	-	297,400
Dato' Yusli Bin Mohamed Yusoff	200,000	-	-	200,000
<u>Indirect interests in the Company</u>				
Datuk Kamarudin Bin Meranun*	1,310,331,376	-	(146,728,982)	1,163,602,394
Tan Sri Dr. Anthony Francis Fernandes*	1,310,331,376	-	(146,728,982)	1,163,602,394
Lim Kian Onn**	1,050,000	196,783,356	-	197,833,356
Tan Sri Rafidah Aziz***	100,000	-	-	100,000
Tan Sri Asmat Bin Kamaludin****	-	40,000	-	40,000

\* Deemed interest by virtue of their shareholding interests in AirAsia Berhad and Tune Group Sdn Bhd pursuant to Section 8 of the Companies Act, 2016.

\*\* Pursuant to Section 59(11)(c) of the Companies Act, 2016, the interests of spouse and children of Lim Kian Onn in the shares of the Company shall also be treated as the interest of Lim Kian Onn.

**AIRASIA X BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' INTERESTS IN SHARES (CONTINUED)**

\*\*\* Pursuant to Section 59(11)(c) of the Companies Act, 2016, the interest of spouse (deceased) of Tan Sri Rafidah Aziz in the shares of the Company shall also be treated as the interest of Tan Sri Rafidah Aziz.

\*\*\*\* Pursuant to Section 59(11)(c) of the Companies Act, 2016, the interests of spouse and children of Tan Sri Asmat Bin Kamaludin in the shares of the Company shall also be treated as the interest of Tan Sri Asmat Bin Kamaludin.

**DIVIDENDS**

No dividend has been paid or declared by the Company since the end of the previous financial year. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2016.

**DIRECTORS' REMUNERATION**

Details of Directors' remuneration are set out in Note 5 to the financial statements.

**EMPLOYEES' SHARE OPTION SCHEME**

The Company had implemented an Employees' Share Option Scheme ("ESOS") to eligible employees of the Group. The tenure of the ESOS shall be five (5) years with an option to extend for a further five (5) years, subject to a maximum duration of ten (10) years.

The salient features of the ESOS are disclosed in Note 27 of the financial statements.

The number of options granted under ESOS during the financial year and the number of options outstanding at the end of the financial year are as follows:

<u>Types of grant</u>	<u>At</u>		<u>At</u>	
	<u>1.1.2016</u>	<u>Exercised</u>	<u>Forfeited</u>	<u>31.12.2016</u>
First grant on 1.7.2013				
- Ordinary shares	3,976,148	-	(205,485)	3,770,663

None of the Directors were granted any options as they are not eligible to participate in the ESOS under the By-Law of the Scheme.

**AIRASIA X BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS**

Before the financial statements of the Group and the Company were prepared, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Group and Company had been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet their obligations as and when they fall due.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and Company which has arisen since the end of the financial year.

**AIRASIA X BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)**

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

- (a) except as disclosed in the financial statements, the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and Company for the financial year in which this report is made.

**SUBSIDIARIES**

Details of subsidiaries are set out in Note 16 to the financial statements. The audit reports on the financial statements of the subsidiaries did not contain qualification or adverse comment made under Fifth Schedule Part(8) of Companies Act, 2016. The subsidiaries do not hold any shares in the holding company or other related corporations.

**AUDITORS' REMUNERATION**

Details of auditors' remuneration are set out in Note 6 to the financial statements.

**AUDITORS**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 28 March 2017. Signed on behalf of the Board of Directors:



TAN SRI RAFIDAH AZIZ  
DIRECTOR



DATUK KAMARUDIN BIN MERANUN  
DIRECTOR

Kuala Lumpur

**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**INCOME STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

		<u>Group</u>		<u>Company</u>	
	<u>Note</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
		RM'000	RM'000	RM'000	RM'000
Revenue	4	4,006,534	3,062,553	4,005,025	3,061,192
Operating expenses					
- Staff costs	5	(369,594)	(315,821)	(363,580)	(311,501)
- Depreciation of property, plant and equipment		(113,531)	(144,807)	(113,531)	(144,807)
- Aircraft fuel expenses		(1,116,110)	(1,020,881)	(1,116,110)	(1,020,881)
- Maintenance and overhaul		(619,331)	(496,814)	(619,331)	(496,814)
- User charges		(461,685)	(395,051)	(461,685)	(395,051)
- Aircraft operating lease expenses		(846,004)	(706,058)	(846,004)	(706,058)
- Other operating expenses	6	(251,336)	(137,445)	(256,464)	(141,013)
Other income	7	56,000	116,881	56,772	116,881
Operating profit/(loss)		284,943	(37,443)	285,092	(38,052)
Finance income	9	24,775	19,812	24,775	19,812
Finance costs	9	(49,874)	(84,131)	(49,874)	(84,131)
Net operating profit/(loss)		259,844	(101,762)	259,993	(102,371)
Foreign exchange losses	9	(35,489)	(299,562)	(35,489)	(299,562)
Share of results of an associate	17	-	-	-	-
Share of results of a joint venture	18	-	(37,566)	-	-
Other gains/(losses)	8	35,738	(7,585)	35,738	(61,473)
Profit/(Loss) before taxation		260,093	(446,475)	260,242	(463,406)
Taxation					
- Current taxation	10	188	(169)	169	(169)
- Deferred taxation	10	(49,967)	97,028	(49,967)	97,028
		(49,779)	96,859	(49,798)	96,859
Net profit/(loss) for the financial year		210,314	(349,616)	210,444	(366,547)
Net profit/(loss) for the financial year attributable to:					
- Equity holders of the Company		210,314	(349,616)		
- Non-controlling interests		-	-		
		210,314	(349,616)		
Earning/(Loss) per share (sen)					
- Basic	11	5.1	(10.4)		
- Diluted	11	5.1	(10.4)		



**AIRASIA X BERHAD**  
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**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Net profit/(loss) for the financial year	210,314	(349,616)	210,444	(366,547)
Other comprehensive income/(loss)				
Items that may be subsequently reclassified to profit or loss				
Cash flow hedges	214,212	(114,108)	214,212	(114,108)
Foreign currency translation differences	68	231	-	-
Other comprehensive income/(loss) for the financial year, net of tax	<u>214,280</u>	<u>(113,877)</u>	<u>214,212</u>	<u>(114,108)</u>
Total comprehensive income/(loss) for the financial year	<u>424,594</u>	<u>(463,493)</u>	<u>424,656</u>	<u>(480,655)</u>
Total comprehensive income/(loss) attributable to:				
- Equity holders of the Company	424,594	(463,493)		
- Non-controlling interests	-	-		
	<u>424,594</u>	<u>(463,493)</u>		

**AIRASIA X BERHAD**  
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**BALANCE SHEETS AS AT 31 DECEMBER 2016**

		Group		Company	
	Note	2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	12	1,568,493	1,677,613	1,568,493	1,677,613
Deferred tax assets	13	492,854	542,821	492,854	542,821
Deposits on aircraft purchases	14	136,791	243,601	136,791	243,601
Other deposits and prepayments	15	1,107,800	903,374	1,107,800	903,374
Investments in subsidiaries	16	-	-	*	*
Investment in an associate	17	-	-	20,018	20,018
Investment in a joint venture	18	-	-	-	-
		<u>3,305,938</u>	<u>3,367,409</u>	<u>3,325,956</u>	<u>3,387,427</u>
CURRENT ASSETS					
Inventories	20	14,151	3,985	14,151	3,985
Receivables and prepayments	21	285,084	282,463	285,338	282,403
Amounts due from related parties	22	51,561	30,103	51,561	29,330
Amount due from a joint venture	22	112,816	55,570	112,816	55,570
Amount due from an associate	22	69,590	26,150	-	-
Amount due from a subsidiary	22	-	-	69,590	26,150
Derivative financial instruments	19	134,735	-	134,735	-
Tax recoverable		1,613	712	1,459	579
Deposits, cash and bank balances	23	422,021	310,789	420,405	310,274
		<u>1,091,571</u>	<u>709,772</u>	<u>1,090,055</u>	<u>708,291</u>
Non-current asset held for sale	24	92,781	105,116	92,781	105,116
		<u>1,184,352</u>	<u>814,888</u>	<u>1,182,836</u>	<u>813,407</u>
LESS: CURRENT LIABILITIES					
Sales in advance		715,207	671,510	715,207	671,510
Derivative financial instruments	19	-	115,215	-	115,215
Trade and other payables	25	878,246	849,075	877,505	848,279
Amounts due to related parties	22	25,256	45,668	25,879	45,668
Amounts due to subsidiaries	22	-	-	1,488	2,263
Borrowings	26	208,238	319,477	208,238	319,477
		<u>1,826,947</u>	<u>2,000,945</u>	<u>1,828,317</u>	<u>2,002,412</u>
NET CURRENT LIABILITIES		(642,595)	(1,186,057)	(645,481)	(1,189,005)

**AIRASIA X BERHAD**  
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**BALANCE SHEETS AS AT 31 DECEMBER 2016 (CONTINUED)**

	<u>Note</u>	<u>Group</u> <u>2016</u> RM'000	<u>2015</u> RM'000	<u>Company</u> <u>2016</u> RM'000	<u>2015</u> RM'000
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	26	952,088	1,109,610	952,088	1,109,610
Other payables and accruals	25	654,370	439,935	654,370	439,935
		<u>1,606,458</u>	<u>1,549,545</u>	<u>1,606,458</u>	<u>1,549,545</u>
		<u>1,056,885</u>	<u>631,807</u>	<u>1,074,017</u>	<u>648,877</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	27	622,222	622,222	622,222	622,222
Share premium		911,821	911,821	911,821	911,821
Warrant reserve		62,222	62,222	62,222	62,222
Currency translation reserve		195	127	-	-
Accumulated losses		(648,715)	(859,029)	(631,388)	(841,832)
Other reserves	28	109,140	(105,556)	109,140	(105,556)
		<u>1,056,885</u>	<u>631,807</u>	<u>1,074,017</u>	<u>648,877</u>
Shareholders' equity		<u>1,056,885</u>	<u>631,807</u>	<u>1,074,017</u>	<u>648,877</u>

\* Less than RM1,000

**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

Attributable to equity holders of the Company												
Issued and fully paid ordinary shares of RM0.15 each												
Note	Number of shares '000	Nominal value RM'000	Share premium RM'000	Warrant reserve RM'000	Cash flow hedge reserve RM'000	Share option reserve RM'000	Currency translation reserve RM'000	Accumulated losses RM'000	Total RM'000	Non- controlling interest RM'000	Total equity RM'000	
At 1 January 2016	4,148,148	622,222	911,821	62,222	(107,630)	2,074	127	(859,029)	631,807	-	631,807	
Net profit for the financial year	-	-	-	-	-	-	-	210,314	210,314	-	210,314	
Other comprehensive income	-	-	-	-	214,212	-	68	-	214,280	-	214,280	
Total comprehensive income	-	-	-	-	214,212	-	68	210,314	424,594	-	424,594	
Employee Share Option Scheme	27	-	-	-	-	484	-	-	484	-	484	
At 31 December 2016	4,148,148	622,222	911,821	62,222	106,582	2,558	195	(648,715)	1,056,885	-	1,056,885	

**AIRASIA X BERHAD**  
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

		Attributable to equity holders of the Company									
		Issued and fully paid ordinary shares of RM0.15 each									
Note	Number of shares '000	Nominal value RM'000	Share premium RM'000	Warrant reserve RM'000	Cash flow hedge reserve RM'000	Share option reserve RM'000	Currency translation reserve RM'000	Accumulated losses RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
At 1 January 2015	2,370,370	355,556	849,598	-	6,478	1,515	(104)	(509,413)	703,630	-	703,630
Net loss for the financial year	-	-	-	-	-	-	-	(349,616)	(349,616)	-	(349,616)
Other comprehensive (loss)/income	-	-	-	-	(114,108)	-	231	-	(113,877)	-	(113,877)
Total comprehensive (loss)/income	-	-	-	-	(114,108)	-	231	(349,616)	(463,493)	-	(463,493)
Issuance of new shares	27 1,777,778	266,666	62,223	62,222	-	-	-	-	391,111	-	391,111
Employee Share Option Scheme	27 -	-	-	-	-	559	-	-	559	-	559
At 31 December 2015	4,148,148	622,222	911,821	62,222	(107,630)	2,074	127	(859,029)	631,807	-	631,807

**AIRASIA X BERHAD**  
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**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	Issued and fully paid ordinary shares of RM0.15 each	Non-distributable						
			Number of shares '000	Nominal value RM'000	Share premium RM'000	Warrant reserve RM'000	Cash flow hedge reserve RM'000	Share option reserve RM'000	Accumulated losses RM'000
At 1 January 2016		4,148,148	622,222	911,821	62,222	(107,630)	2,074	(841,832)	648,877
Net profit for the financial year		-	-	-	-	-	-	210,444	210,444
Other comprehensive income		-	-	-	-	214,212	-	-	214,212
Total comprehensive income		-	-	-	-	214,212	-	210,444	424,656
Employee Share Option Scheme	27	-	-	-	-	-	484	-	484
At 31 December 2016		4,148,148	622,222	911,821	62,222	106,582	2,558	(631,388)	1,074,017

**AIRASIA X BERHAD**  
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**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

	Note	Issued and fully paid ordinary shares of RM0.15 each		Non-distributable					Total RM'000
		Number of shares '000	Nominal value RM'000	Share premium RM'000	Warrant reserve RM'000	Cash flow hedge reserve RM'000	Share option reserve RM'000	Accumulated losses RM'000	
At 1 January 2015		2,370,370	355,556	849,598	-	6,478	1,515	(475,285)	737,862
Net loss for the financial year		-	-	-	-	-	-	(366,547)	(366,547)
Other comprehensive loss		-	-	-	-	(114,108)	-	-	(114,108)
Total comprehensive loss		-	-	-	-	(114,108)	-	(366,547)	(480,655)
Issuance of new shares	27	1,777,778	266,666	62,223	62,222	-	-	-	391,111
Employee Share Option Scheme	27	-	-	-	-	-	559	-	559
At 31 December 2015		4,148,148	622,222	911,821	62,222	(107,630)	2,074	(841,832)	648,877

**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit/(Loss) before taxation	260,093	(446,475)	260,242	(463,406)
Adjustments:				
Property, plant and equipment				
- Depreciation	113,531	144,807	113,531	144,807
- Write off	15,189	7,752	15,189	7,752
Non-current assets held for sale				
- Write off	12,335	-	12,335	-
Gain on disposal	-	(32,541)	-	(32,541)
Impairment of trade and other receivables	11,585	-	11,585	-
Impairment of investment in a joint venture	-	-	-	53,888
Finance cost	40,260	75,076	40,260	75,076
Discounting effect of deposits	9,614	9,055	9,614	9,055
Interest income	(5,193)	(3,849)	(5,193)	(3,849)
Discounting/accretion of interest on deposits	(19,582)	(15,963)	(19,582)	(15,963)
Fair value (gain)/loss on derivative financial instruments	(35,738)	(101,886)	(35,738)	(101,886)
Fair value gain on shareholders' benefits scheme	(2,944)	-	(2,944)	-
Share option expense	484	559	484	559
Share of results of a joint venture	-	37,566	-	-
Net unrealised foreign exchange losses	16,435	255,805	16,083	255,118
	<u>416,069</u>	<u>(70,094)</u>	<u>415,866</u>	<u>(71,390)</u>
<b>Changes in working capital:</b>				
Inventories	(10,166)	(2,623)	(10,166)	(2,623)
Receivables, prepayments and other deposits	(17,398)	(141,004)	(17,647)	(141,017)
Related parties balances	(129,333)	(27,033)	(129,970)	(25,671)
Trade and other payables	81,201	122,407	81,257	122,395
Sales in advance	43,697	173,655	43,697	173,655
	<u>384,070</u>	<u>55,308</u>	<u>383,037</u>	<u>55,349</u>
Cash generated from operations				
Interest paid	(47,815)	(72,483)	(47,815)	(72,483)
Interest received	5,193	3,745	5,193	3,745
Tax recovered	-	1,001	-	1,001
Tax paid	(712)	(817)	(712)	(711)
	<u>340,736</u>	<u>(13,246)</u>	<u>339,703</u>	<u>(13,099)</u>
Net cash generated from/(used in) operating activities				



**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

		<u>Group</u>		<u>Company</u>	
	<u>Note</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
		RM'000	RM'000	RM'000	RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Property, plant and equipment - Additions	12	(30,420)	(37,337)	(30,420)	(37,337)
Proceeds from disposal of aircraft and engine pursuant to sales and leaseback arrangement		10,408	69,178	10,408	69,178
Proceeds from disposal of property, plant and equipment		412	-	412	-
Refund/(Placement) of deposits on aircraft purchases		508	265,483	508	265,483
Net cash (used in)/generated from investing activities		(19,092)	297,324	(19,092)	297,324
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from allotment of shares		-	391,111	-	391,111
Proceeds from borrowings		-	392,100	-	392,100
Repayments of borrowings		(212,553)	(890,779)	(212,553)	(890,779)
Deposits pledged as securities		18,827	(6,181)	18,827	(6,181)
Net cash used in financing activities		(193,726)	(113,749)	(193,726)	(113,749)
<b>NET INCREASE FOR THE FINANCIAL YEAR</b>		<b>127,918</b>	<b>170,329</b>	<b>126,885</b>	<b>170,476</b>
<b>CURRENCY TRANSLATION DIFFERENCES</b>		<b>2,141</b>	<b>7,081</b>	<b>2,073</b>	<b>6,850</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>		<b>252,347</b>	<b>74,937</b>	<b>251,832</b>	<b>74,506</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>	23	<b>382,406</b>	<b>252,347</b>	<b>380,790</b>	<b>251,832</b>

**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016**

**1 GENERAL INFORMATION**

The principal activity of the Company is that of providing long haul air transportation services. The principal activities of the subsidiary companies are described in Note 16 to the financial statements.

There was no significant change in the nature of these activities during the financial year.

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

B-13-15, Level 13  
Menara Prima Tower B  
Jalan PJU1/39, Dataran Prima  
47301 Petaling Jaya  
Selangor Darul Ehsan

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

RedQ, Jalan Pekeliling 5  
Lapangan Terbang Antarabangsa Kuala Lumpur (KLIA2)  
64000 KLIA  
Selangor Darul Ehsan

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 March 2017.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements:

**(a) Basis of preparation**

The financial statements of the Group and Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgment in the process of applying the Group's and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(a) Basis of preparation (continued)

During the financial year ended 31 December 2016, the Group and the Company's current liabilities exceeded their current assets by RM642,595,000 (2015: RM1,186,057,000) and RM645,481,000 (2015: RM1,189,005,000) respectively.

The Directors are of the view that the Group and the Company will have sufficient cash flows for the next twelve months from the reporting date to meet their cash flow requirements. The Directors believe that the Group and the Company are able to realise their assets and discharge their liabilities in the normal course of business and that the financial position will be improved through future operating profits and cash flows. Thus, the Directors believe that it is appropriate to prepare the financial statements of the Group and the Company on a going concern basis.

(b) Standards, amendments to published standards and interpretations that are effective

The Group has applied the following amendments for the first time for the financial year beginning on 1 January 2016:

- Amendments to MFRS 11 'Joint arrangements' - Accounting for acquisition of interests in joint operations
- Amendments to MFRS 101 'Presentation of financial statements' - Disclosure initiative
- Amendments to MFRS 127 "Equity method in separate financial statements"
- Amendments to MFRS 10, 12 & 128 "Investment entities – Applying the consolidation exception"
- Annual Improvements to MFRSs 2012 – 2014 Cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Standards and amendments that have been issued but not yet effective**

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2017. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Standards and amendments that have been issued but not yet effective (continued)**

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(c) Standards and amendments that have been issued but not yet effective (continued)

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Standards and amendments that have been issued but not yet effective (continued)**

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

**(d) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(d) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised.



**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(d) Basis of consolidation (continued)

(ii) Associates (continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of results of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising from investments in associates are recognised in profit or loss.

(iii) Joint arrangements

A joint arrangement is an arrangement of which there is contractually agreed sharing of control by the Group with one or more parties, where decisions about the relevant activities relating to the joint arrangement require unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities, relating to the arrangement.

The Group's interest in a joint venture is accounted for in the financial statements using the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised. Where an entity loses joint control over a joint venture but retains significant influence, the Group does not re-measure its continued ownership interest at fair value.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs also include borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2(q) on borrowing costs).

Where significant parts of an item of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts in the carrying amount of the property, plant and equipment as a replacement when it is probable that future economic benefits associated with the parts will flow to the Group and the cost of the parts can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in profit or loss during the period in which they are incurred.

Significant parts of an item of property, plant and property are depreciated separately over their estimated useful lives in accordance with the principle in MFRS 116 "Property, Plant and Equipment". Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives.

The useful lives for this purpose are as follows:

<b>Aircraft</b>	
- engines and airframe excluding service potential	25 years
- service potential of engines and airframe	6 or 12 years
Aircraft spares	10 years
Aircraft fixtures and fittings	Useful life of aircraft or remaining lease term of aircraft, whichever is shorter
Motor vehicles	5 years
Office equipment, furniture and fittings	5 years

Service potential of 6 years represents the period over which the expected cost of the first major aircraft engine overhaul is depreciated. Subsequent to the engine overhaul, the actual cost incurred is capitalised and depreciated over the subsequent 6 years.

Certain elements of the cost of an airframe are attributed on acquisition to 6 years interval check or 12 years interval check, reflecting its maintenance conditions. This cost is amortised over the shorter of the period to the next scheduled heavy maintenance or the remaining life of the aircraft.

Assets not yet in operation are stated at cost and are not depreciated until the assets are ready for their intended use. Useful lives of assets are reviewed and adjusted if appropriate, at the balance sheet date.

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Property, plant and equipment (continued)**

Residual values, where applicable, are reviewed annually against prevailing market values at the balance sheet date for equivalent aged assets, and depreciation rates are adjusted accordingly on a prospective basis. For the current financial year ended 31 December 2016, the estimated residual value for aircraft airframes and engines is 10% of their cost (2015: 10% of their cost).

An element of the cost of an acquired aircraft is attributed on acquisition to its service potential, reflecting the maintenance condition of its engines and airframe. This cost, which can equate to a substantial element of the total aircraft cost, is amortised over the shorter of the period to the next checks or the remaining life of the aircraft.

The costs of upgrades to leased assets are capitalised and amortised over the shorter of the expected useful life of the upgrades or the remaining life of the aircraft.

Deposits on aircraft purchase are included as part of the cost of the aircraft and are depreciated from the date that the aircraft is ready for its intended use.

At each balance sheet date, the Group and Company assess whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(h) on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statements.

**(f) Non-current assets held-for-sale**

Non-current assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Investments in subsidiaries, joint ventures and associates**

In the Company's separate financial statements, investments in subsidiaries, joint ventures and associates are stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount (see Note 2(h)).

On disposal of investments in subsidiaries, joint ventures and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

**(h) Impairment of non-financial assets**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal at each reporting date.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

**(i) Maintenance and overhaul**

**Owned aircraft**

The accounting for the cost of major airframe and certain engine maintenance checks for own aircraft is described in the accounting policy for property, plant and equipment (see Note 2(e)).

**Leased aircraft**

Where the Group and Company have a commitment to maintain aircraft held under operating leases, a provision is made during the lease term for the rectification obligations contained within the lease agreements. The provisions are based on estimated future costs of major airframe, certain engine maintenance checks and one-off costs incurred at the end of the lease by making appropriate charges to the income statements calculated by reference to the number of hours or cycles operated during the financial year.

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Leases**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Finance leases

Leases of property, plant and equipment where the Group and Company assume substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the commencement dates of the respective leases at the lower of the fair value of the leased property and the present value of the minimum lease payments at the date of inception. Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the balance outstanding. The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance charge is charged to the income statements over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

Property, plant and equipment acquired under finance lease contracts are depreciated over the estimated useful life of the asset, in accordance with the annual rates stated in Note 2(e) above. Where there is no reasonable certainty that the ownership will be transferred to the Group and Company, the asset is depreciated over the shorter of the lease term and its useful life.

Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the income statements on a straight-line basis over the lease period.

Assets leased out by the Group and Company under operating leases are included in property, plant and equipment in the balance sheets. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term.

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(j) Leases (continued)**

**Sale and leaseback transactions**

When a sale and leaseback results in a finance lease, any gain on the sale is deferred and recognised as income over the lease term. Any loss on the sale is immediately recognised as an impairment loss when the sale occurs.

If the leaseback is classified as an operating lease, then any gain is recognised immediately if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback are accounted for as follows:

If the sale price is below fair value then the gain or loss is recognised immediately other than to the extent that a loss is compensated for by future rentals at below-market price, then the loss is deferred and amortised over the period that the asset is expected to be used.

If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the asset.

If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognised immediately as a loss on the sale.

**(k) Inventories**

Inventories comprising consumables used internally for repairs and maintenance and in-flight merchandise, are stated at the lower of cost and net realisable value.

Cost is determined on the weighted average basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and applicable variable selling expenses. In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(l) Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2(w). The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group and Company document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group and Company also document their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 19 to the financial statements. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statements.

Amounts accumulated in equity are reclassified to the income statements in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statements and presented separately after net operating profit.

When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in the cost of goods sold in the case of inventory or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/(losses)' and 'foreign exchange losses'.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

**(n) Cash and cash equivalents**

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand, bank balances, demand deposits, bank overdrafts and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents in the statement of cash flows. In the balance sheets, banks overdrafts are shown within borrowings in current liabilities.

Deposits held as pledged securities for term loans granted are not included as cash and cash equivalents.

**(o) Provision**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

**(p) Share capital**

**(i) Classification**

Ordinary shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

**(ii) Share issue costs**

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

**(iii) Dividends to shareholders of the Company**

Dividends are recognised as a liability in the period in which they are declared. A dividend declared after the end of the reporting period, but before the financial statements are authorised for issue, is not recognised as a liability at the end of the reporting period.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Interest, dividends, losses and gains relating to a financial instrument, or a component part, classified as a liability is reported within finance cost in the income statements.

Borrowings are classified as current liabilities unless the Group and Company have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(r) Current and deferred income taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is recognised, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary differences shall not be recognised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(s) Employee benefits**

**(i) Short term employee benefits**

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

**(ii) Defined contribution plan**

The Group's and Company's contributions to the Employees' Provident Fund are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group and Company have no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(t) Revenue recognition**

Revenue from scheduled passenger flights is recognised upon the rendering of transportation services net of discounts. The revenue of seats sold for which services have not been rendered is included in current liabilities as sales in advance.

Revenue from charter flights is recognised upon the rendering of transportation services.

Fuel surcharge, insurance surcharge, administrative fees, seat fees, change fees, convenience fees, excess baggage and baggage handling fees are recognised upon the completion of services rendered net of discounts. Freight and other related revenue are recognised upon the completion of services rendered net of discounts.

Management fees, incentives and commission income are recognised on an accrual basis.

Revenue from aircraft operating lease is recorded on a straight line basis over the term of the lease.

Interest income is recognised using the effective interest method.

The Group participates in a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. Award points are recognised as a cost of sale at the time of issue while revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed and the redemption value of each point. Award points expire 36 months after the initial sale.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(u) Foreign currencies**

**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses arising from operations are included in arriving at the operating profit. Foreign exchange gains and losses arising from borrowings (after effects of effective hedges) and amounts due from associates are separately disclosed after net operating profit.

**(iii) Group companies**

The results and financial position of all entities within the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is disposed of or sold, such exchange differences that were recorded in equity are recognised in the income statements as part of the gain or loss on disposal.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(v) Contingent liabilities**

The Group and Company do not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group and Company, or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably. However contingent liabilities do not include financial guarantee contracts.

The Group and Company recognise separately the contingent liabilities of the acquirees as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions.

Subsequent to the initial recognition, the Group and Company measure the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provisions of MFRS 137 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with MFRS 118 "Revenue".

**(w) Financial assets**

**(i) Classification**

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges (see Note 2(l)). Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's and Company's loans and receivables comprise 'trade and other receivables', 'amounts due from related parties, a subsidiary, an associate and joint venture' and 'deposits, cash and bank balances' in the balance sheet.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(w) Financial assets (continued)**

**(ii) Recognition and initial measurement**

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

**(iii) Subsequent measurement – gains and losses**

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in the income statement in the period in which the changes arise.

**(iv) Subsequent measurement – impairment of financial assets**

**Assets carried at amortised cost**

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(w) Financial assets (continued)**

**(iv) Subsequent measurement – Impairment of financial assets (continued)**

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the income statement. If 'loans and receivables' have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(w) Financial assets (continued)**

**(v) De-recognition**

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

**(x) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**(y) Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(z) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Chief Executive Officer that makes strategic decisions.

**(aa) Warrant reserve**

Warrants reserve arising from the issuance of free warrants together with the rights issue, is determined based on the allocation of the proceeds from the right issue using the fair value of the warrants and the ordinary shares on a pro-rate basis. Proceeds from warrants which are issued at a value, are credited to a warrants reserve. Warrants reserve is non-distributable, and is transferred to the share premium account upon the exercise of warrants. Warrants reserve in relation to unexercised warrants at the expiry of the warrants period is transferred to retained earnings.



**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group and Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have a material impact to the Group's and Company's results and financial position are tested for sensitivity to changes in the underlying parameters.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(i) Estimated useful lives and residual values of aircraft frames and engines

The Group reviews annually the estimated useful lives and residual values of aircraft frames and engines based on factors such as business plan and strategies, expected level of usage, future technological developments and market prices.

Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction of 5% in the residual values of aircraft airframes and engines as disclosed in Note 2(e), would increase the recorded depreciation for the financial year ended 31 December 2016 by RM3,346,000 (2015: RM3,346,000) and decrease the carrying amount of property, plant and equipment as at 31 December 2016 by RM 17,603,044 (2015: RM10,704,000).

(ii) Deferred tax assets

Deferred tax assets are mainly originating from unutilised tax incentives, unabsorbed capital allowances and tax losses carry forward which have no expiry dates. The deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of regulatory approvals for prospective routes, aircraft delivery, fares, load factors, fuel price, maintenance cost and currency movements. These assumptions have been built based on past performance and adjusted for non-recurring circumstances and a reasonable growth rate. Based on these projections, management believes that the current non-time restricted temporary differences will be utilised and has recognised the deferred tax assets as at balance sheet date.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**4 REVENUE**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Scheduled flights	2,532,543	1,682,740	2,532,543	1,682,740
Charter flights	254,720	421,662	254,720	421,662
Fuel surcharge	-	98,861	-	98,861
Freight services	134,913	107,508	134,913	107,508
Ancillary revenue	642,715	476,407	642,715	476,407
Aircraft operating lease income	440,134	274,014	440,134	274,014
Management fees	1,509	1,361	-	-
	<u>4,006,534</u>	<u>3,062,553</u>	<u>4,005,025</u>	<u>3,061,192</u>

Ancillary revenue includes assigned seat, cancellation, documentation and other fees, and the on-board sale of meals and merchandise.

**5 STAFF COSTS**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Wages, salaries, bonuses and allowances	341,776	289,900	336,297	285,939
Defined contribution retirement plan	27,334	25,362	26,799	25,003
Share option expense	484	559	484	559
	<u>369,594</u>	<u>315,821</u>	<u>363,580</u>	<u>311,501</u>

The details of outstanding options over the ordinary shares of the Company granted under ESOS to the eligible employees are disclosed in Note 27 to the financial statements.

**DIRECTORS' REMUNERATION**

	<u>Receivable from the Company RM'000</u>	<u>Receivable from Subsidiaries RM'000</u>	<u>Group RM'000</u>
Directors' salaries, bonus and allowances	2,400	-	2,400
Directors' fees	645	-	645
Directors' defined contribution plan	288	-	288
	<u>3,333</u>	<u>-</u>	<u>3,333</u>

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**5 STAFF COSTS (CONTINUED)**

The remuneration payable to the Directors of the Company is analysed as follows:

	Non-executive	
	2016	2015
<u>Range of remuneration</u>		
Less than RM100,000	3	4
RM100,001 to RM150,000	2	3
RM150,001 to RM200,000	1	1
More than RM200,000	1	1

**6 OTHER OPERATING EXPENSES**

The following items have been charged/(credited) in arriving at other operating expenses:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Management fee	-	-	6,484	4,670
Rental of land and buildings	7,094	6,112	6,766	5,971
Auditors' remuneration				
- Statutory audit	410	358	393	341
- Non-audit fees	73	205	73	205
Rental of equipment	287	299	287	299
Net foreign exchange (gain)/loss on operations				
- Realised	(50,741)	(27,675)	(50,741)	(27,675)
- Unrealised	(19,054)	(50,235)	(19,406)	(50,922)
Advertising expenses	62,327	42,056	62,284	42,056
Credit card charges	39,827	32,478	39,827	32,478
In-flight meal expenses	19,662	21,630	19,662	21,630
Insurance expenses	28,065	26,508	28,062	26,508
Impairment of receivables	11,585	-	11,585	-
Property, plant and equipment written off	15,189	7,752	15,189	7,752
Non-current asset held for sale written off	12,335	-	12,335	-
Fair value gain on shareholders' benefits scheme	(2,944)	-	(2,944)	-

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**7 OTHER INCOME**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Gain on disposal of aircraft and engine pursuant to sales and leaseback arrangements	-	32,541	-	32,541
Commission income from insurance	6,665	7,095	6,665	7,095
Others	49,335	77,245	50,107	77,245
	<u>56,000</u>	<u>116,881</u>	<u>56,772</u>	<u>116,881</u>

Other income ('others') includes concessions received from suppliers and commissions received from advertising activities.

**8 OTHER GAINS/(LOSSES)**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Other gain/(loss) from fuel contracts held for trading	35,738	(7,585)	35,738	(7,585)
Impairment of investment in a joint venture	-	-	-	(53,888)
	<u>35,738</u>	<u>(7,585)</u>	<u>35,738</u>	<u>(61,473)</u>

**AIRASIA X BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**9 FINANCE INCOME/(COSTS)**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
<u>Finance income:</u>				
Interest income from deposits with licensed bank	5,193	3,849	5,193	3,849
Discounting and accretion of interest on deposits	19,582	15,963	19,582	15,963
	<u>24,775</u>	<u>19,812</u>	<u>24,775</u>	<u>19,812</u>
<u>Finance costs:</u>				
Interest expense on bank borrowings	(37,716)	(74,807)	(37,716)	(74,807)
Discounting and accretion of interest on deposits	(9,614)	(9,055)	(9,614)	(9,055)
Bank facilities and other charges	(2,544)	(269)	(2,544)	(269)
	<u>(49,874)</u>	<u>(84,131)</u>	<u>(49,874)</u>	<u>(84,131)</u>
<b>FOREIGN EXCHANGE LOSSES</b>				
Unrealised foreign exchange (losses)/ gains on:				
- Borrowings	(37,562)	(312,890)	(37,562)	(312,890)
- Deposits and bank balances	2,073	6,850	2,073	6,850
	<u>(35,489)</u>	<u>(306,040)</u>	<u>(35,489)</u>	<u>(306,040)</u>
Fair value movement recycled from cash flow hedge reserve	-	6,478	-	6,478
Net foreign exchange losses	<u>(35,489)</u>	<u>(299,562)</u>	<u>(35,489)</u>	<u>(299,562)</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**10 TAXATION**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Current taxation:				
- Malaysian taxation	(169)	169	(169)	169
- Foreign taxation	(19)	-	-	-
	<u>(188)</u>	<u>169</u>	<u>(169)</u>	<u>169</u>
Deferred taxation	<u>49,967</u>	<u>(97,028)</u>	<u>49,967</u>	<u>(97,028)</u>
Total tax expense/(credit)	<u><u>49,779</u></u>	<u><u>(96,859)</u></u>	<u><u>49,798</u></u>	<u><u>(96,859)</u></u>
Current taxation:				
- Current financial year	(19)	169	-	169
- Previous financial year	(169)	-	(169)	-
	<u>(188)</u>	<u>169</u>	<u>(169)</u>	<u>169</u>
Deferred taxation: (Note 13)				
- Origination and reversal of temporary differences	<u>49,967</u>	<u>(97,028)</u>	<u>49,967</u>	<u>(97,028)</u>
	<u><u>49,779</u></u>	<u><u>(96,859)</u></u>	<u><u>49,798</u></u>	<u><u>(96,859)</u></u>

The explanation of the relationship between taxation and profit/(loss) before taxation is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) before taxation	<u>260,093</u>	<u>(446,475)</u>	<u>260,242</u>	<u>(463,406)</u>
Tax calculated at Malaysian tax rate of 24% (2015: 25%)	<u>62,422</u>	<u>(111,619)</u>	<u>62,458</u>	<u>(115,852)</u>
Tax effects of:				
- overaccrual of prior year tax	(169)	-	(169)	-
- expenses not deductible for tax purposes	1,596	32,470	1,579	46,095
- income not subject to tax	(14,070)	(31,145)	(14,070)	(31,145)
- changes in statutory tax rate	-	4,043	-	4,043
- share of results of an associate and a joint venture	-	9,392	-	-
Tax expense/(credit)	<u><u>49,779</u></u>	<u><u>(96,859)</u></u>	<u><u>49,798</u></u>	<u><u>(96,859)</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**11 EARNINGS/(LOSS) PER SHARE**

Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	<u>2016</u>	<u>Group 2015</u>
Net profit/(loss) for the financial year (RM'000)	210,314	(349,616)
Weighted average number of ordinary shares in issue ('000)	4,148,148	3,359,107
Earnings/(Loss) per share (sen)	<u>5.1</u>	<u>(10.4)</u>

Diluted earnings/(loss) per share

The diluted earnings/(loss) per share of the Group is similar to the basic earnings/(loss) per share as the options over unissued ordinary shares granted pursuant to the ESOS at the end of the financial year have an anti-dilutive effect. The exercise price of the ESOS of RM1.25 per option is above the average market value of the Company's shares during the financial year.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

12	PROPERTY, PLANT AND EQUIPMENT	At 1 January 2016 RM'000	Additions RM'000	Reclassification RM'000	Disposals RM'000	Depreciation charge RM'000	Write off RM'000	At 31 December 2016 RM'000
	<u>Group and Company</u>							
	<u>Net book value</u>							
	Aircraft engines, airframe and service potential	1,582,309	20,403	10,408	(10,408)	(98,681)	-	1,504,031
	Aircraft spares	66,207	3,525	-	(412)	(12,857)	-	56,463
	Motor vehicles	986	326	-	-	(368)	-	944
	Office equipment, furniture and fittings	5,236	3,400	-	-	(1,623)	-	7,013
	Ramp equipment	-	44	-	-	(2)	-	42
	Assets not yet in operation	22,875	2,722	(10,408)	-	-	(15,189)	-
		<u>1,677,613</u>	<u>30,420</u>	<u>-</u>	<u>(10,820)</u>	<u>(113,531)</u>	<u>(15,189)</u>	<u>1,568,493</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	<u>Cost</u> RM'000	<u>Accumulated depreciation</u> RM'000	<u>Accumulated impairment losses</u> RM'000	<u>Net book value</u> RM'000
<u>At 31 December 2016</u>				
Aircraft engines, airframe and service potential	2,205,663	(672,585)	(29,047)	1,504,031
Aircraft spares	142,311	(75,220)	(10,628)	56,463
Motor vehicles	4,734	(3,790)	-	944
Office equipment, furniture and fitting	14,992	(7,569)	(410)	7,013
Ramp equipment	44	(2)	-	42
	<u>2,367,744</u>	<u>(759,166)</u>	<u>(40,085)</u>	<u>1,568,493</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

12

**PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	At 1 January 2015 RM'000	Additions RM'000	Reclassification RM'000	Disposals RM'000	Transfer to non-current asset held for sale RM'000	Depreciation charge RM'000	Write off RM'000	At 31 December 2015 RM'000
<u>Group and Company</u>								
<u>Net book value</u>								
Aircraft engines, airframe and service potential	1,824,214	-	36,140	(36,140)	(105,116)	(129,493)	(7,296)	1,582,309
Aircraft spares	77,670	1,930	964	(497)	-	(13,404)	(456)	66,207
Motor vehicles	1,348	-	-	-	-	(362)	-	986
Office equipment, furniture and fittings	4,370	2,414	-	-	-	(1,548)	-	5,236
Assets not yet in operation	26,986	32,993	(37,104)	-	-	-	-	22,875
	<u>1,934,588</u>	<u>37,337</u>	<u>-</u>	<u>(36,637)</u>	<u>(105,116)</u>	<u>(144,807)</u>	<u>(7,752)</u>	<u>1,677,613</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Accumulated impairment losses</u>	<u>Net book value</u>
	RM'000	RM'000	RM'000	RM'000
<u>At 31 December 2015</u>				
Aircraft engines, airframe and service potential	2,185,260	(573,904)	(29,047)	1,582,309
Aircraft spares	139,834	(62,999)	(10,628)	66,207
Motor vehicles	4,408	(3,422)	-	986
Office equipment, furniture and fittings	11,592	(5,946)	(410)	5,236
Assets not yet in operation	22,875	-	-	22,875
	<u>2,363,969</u>	<u>(646,271)</u>	<u>(40,085)</u>	<u>1,677,613</u>

Included in property, plant and equipment of the Group and Company are aircraft pledged as security for borrowings (Note 26) with a net book value of RM1,494 million (2015: RM1,579 million).

The beneficial ownership and operational control of certain aircraft pledged as security for borrowings rests with the Company when the aircraft is delivered to the Company. Where the legal title to the aircraft is held by the financiers during delivery, the legal title will be transferred to the Company only upon settlement of the respective facilities.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**13 DEFERRED TAXATION**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	492,854	542,821	492,854	542,821

The movements in deferred tax assets and liabilities during the financial year are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
At beginning of financial year	542,821	445,793	542,821	445,793
Credited/(charged) to income statement (Note 10):				
- Property, plant and equipment	(210,161)	42,373	(210,161)	42,373
- Tax losses	(11,598)	81,998	(11,598)	81,998
- Sales in advance	171,650	-	171,650	-
- Derivatives	(10,397)	(29,594)	(10,397)	(29,594)
- Others	10,539	2,251	10,539	2,251
	(49,967)	97,028	(49,967)	97,028
At end of financial year	492,854	542,821	492,854	542,821

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**13 DEFERRED TAXATION (CONTINUED)**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets (before offsetting)				
- Tax incentives	251,456	251,456	251,456	251,456
- Tax losses	129,663	141,261	129,663	141,261
- Sales in advance	171,650	-	171,650	-
- Property, plant and equipment	-	145,139	-	145,139
- Derivatives	-	1,820	-	1,820
- Others	13,684	3,145	13,684	3,145
	<u>566,453</u>	<u>542,821</u>	<u>566,453</u>	<u>542,821</u>
Offsetting	(73,599)	-	(73,599)	-
Deferred tax assets (after offsetting)	<u>492,854</u>	<u>542,821</u>	<u>492,854</u>	<u>542,821</u>
Deferred tax liabilities (before offsetting)				
- Property, plant and equipment	(65,022)	-	(65,022)	-
- Derivatives	(8,577)	-	(8,577)	-
	<u>(73,599)</u>	<u>-</u>	<u>(73,599)</u>	<u>-</u>
Offsetting	73,599	-	73,599	-
Deferred tax liabilities (after offsetting)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Deferred tax assets are mainly originating from unutilised tax incentives, unabsorbed capital allowances and tax losses carry forward which have no expiry dates. As disclosed in Note 3 to the financial statements, the deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of regulatory approvals for prospective routes, aircraft delivery, fares, load factors, fuel price, maintenance cost and currency movements. These assumptions have been built based on past performance and adjusted for non-recurring circumstances and a reasonable growth rate. Based on these projections, management believes that the current non-time restricted temporary differences will be utilised and has recognised the deferred tax assets as at balance sheet date.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**14 DEPOSITS ON AIRCRAFT PURCHASES**

The deposits on aircraft purchases are denominated in US Dollar and are in respect of pre-delivery payments on aircraft purchases. Pre-delivery payments constitute instalments made in respect of the price of the aircraft and are deducted from the final price on delivery.

The deposits as at 31 December 2016 are in respect of aircraft purchases which will be delivered from December 2018 to December 2027.

During the financial year ended 31 December 2016, no borrowing cost were capitalised by the Group and Company (2015: RM10,776,540) on qualifying assets. Borrowing costs were capitalised in the previous financial year at the rate of 4.25% per annum.

**15 OTHER DEPOSITS AND PREPAYMENTS**

Other deposits and prepayments include prepayments for maintenance of aircraft and deposits paid to lessors for leased aircraft. The deposits are denominated in US Dollar.

**16 INVESTMENTS IN SUBSIDIARIES**

	<u>Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Unquoted investments, at cost	#	#
	<u>          </u>	<u>          </u>

# Denotes RM21 (2015: RM21).

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)**

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>2016</u>	<u>2015</u>	
		%	%	
AirAsia X Services Pty Ltd*	Australia	100	100	Provision of management logistical and marketing services
AAX Capital Limited	Malaysia	100	100	Dormant
AAX Leasing I Limited	Malaysia	100	100	Provision of engine leasing facilities
AAX Mauritius One Limited*	Mauritius	100	100	Provision of aircraft leasing facilities
AAX Capital II Limited*	Malaysia	100	100	Dormant
Fly X Limited*	Malaysia	100	100	Dormant

\* Not audited by PricewaterhouseCoopers, Malaysia

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**17 INVESTMENT IN AN ASSOCIATE**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Unquoted investments, at cost	20,018	20,018	20,018	20,018
Group's share of post-acquisition losses	(20,018)	(20,018)	-	-
	<u>-</u>	<u>-</u>	<u>20,018</u>	<u>20,018</u>

The details of the associate are as follows:

<u>Name</u>	<u>Principal place of business/ Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>2016</u>	<u>2015</u>	
		%	%	
Thai AirAsia X Co., Ltd ("TAAX")	Thailand	49	49	Commercial air transport services

TAAX is a private company for which there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's investment in TAAX.

TAAX is operator of commercial air transport services which are based in Thailand. This associate company is a strategic investment of the Company and form an essential part of the Company's growth strategy. They provide access to a wider geographical market and network coverage in the provision of air transport services across the ASEAN region.

Summarised financial information for associate

Set out below is the summarised financial information for the associate which is accounted for using the equity method:

Summarised balance sheet

	<u>TAAX</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
<u>Current</u>		
Cash and cash equivalents	99,828	58,673
Other current assets	175,155	182,861
Total current assets	<u>274,983</u>	<u>241,534</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**17 INVESTMENT IN AN ASSOCIATE (CONTINUED)**

Summarised financial information for associate (continued)

Summarised balance sheet (continued)

	<u>2016</u>	<u>TAAX</u> <u>2015</u>
	RM'000	RM'000
<u>Non-current</u>		
Assets	51,868	25,867
<u>Current</u>		
Financial liabilities	(38,791)	(120,880)
Other liabilities	(379,181)	(241,373)
Total current liabilities	(417,972)	(362,253)
Net liabilities	(91,121)	(94,852)

Summarised statement of comprehensive income

	<u>2016</u>	<u>TAAX</u> <u>2015</u>
	RM'000	RM'000
Revenue	906,686	610,651
Cost of sales	(853,702)	(602,851)
Other operating expenses	(67,501)	(60,932)
Interest income	350	194
Interest expense	(5,502)	(6,348)
Other income	27,540	4,091
Profit/(Loss) before and after tax	7,871	(55,195)
Other comprehensive income	-	-
Total comprehensive income/(loss)	7,871	(55,195)
Dividend received from associate	-	-

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**17 INVESTMENT IN AN ASSOCIATE (CONTINUED)**

Reconciliation of summarised financial information

	<u>TAAX</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Opening net liabilities at 1 January	(94,852)	(36,337)
Profit/(Loss) for the financial year	7,871	(55,195)
Effect of foreign exchange translation	(4,140)	(3,320)
Closing net liabilities at 31 December	<u>(91,121)</u>	<u>(94,852)</u>
Interest in associate (49%)	-	-
Unrecognised share of loss (49%)		
- for the financial year	-	27,045
- cumulative as at 31 December	<u>40,994</u>	<u>44,850</u>
Carrying value at 31 December	-	-

**18 INVESTMENT IN A JOINT VENTURE**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Unquoted investments, at cost	53,888	53,888	53,888	53,888
Group's share of post-acquisition losses	(53,888)	(53,888)	-	-
Accumulated impairment losses	-	-	(53,888)	(53,888)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The details of the joint venture are as follows:

<u>Name</u>	<u>Principal place of business/ Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>2016</u>	<u>2015</u>	
		%	%	
PT Indonesia AirAsia Extra ("IAAX")	Indonesia	49	49	Commercial air transport services

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**18 INVESTMENT IN A JOINT VENTURE (CONTINUED)**

IAAX is a private company for which there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's investment in IAAX.

IAAX is operator of commercial air transport services which are based in Indonesia. This joint venture company is a strategic investment of the Company and form an essential part of the Company's growth strategy. They provide access to a wider geographical market and network coverage in the provision of air transport services across the ASEAN region.

During the previous financial year, impairment losses were recognised due to the losses incurred by the joint venture.

Summarised financial information for joint venture

Set out below is the summarised financial information for the joint venture which is accounted for using the equity method:

Summarised balance sheet

	<u>IAAX</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
<u>Current</u>		
Cash and cash equivalents	28,007	19,338
Other current assets	96,607	85,620
Total current assets	<u>124,614</u>	<u>104,958</u>
<u>Non-current</u>		
Assets	<u>50,862</u>	<u>17,107</u>
<u>Current</u>		
Financial liabilities	(207,766)	(67,927)
Other liabilities	(27,835)	(77,685)
Total current liabilities	<u>(235,601)</u>	<u>(145,612)</u>
<u>Non-current</u>		
Liabilities	<u>(5,988)</u>	<u>(5,727)</u>
Net liabilities	<u>(66,113)</u>	<u>(29,274)</u>

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**18 INVESTMENT IN A JOINT VENTURE (CONTINUED)**

Summarised financial information for joint venture (continued)

Summarised statement of comprehensive income

	<u>IAAX</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Revenue	623,791	191,326
Cost of sales	(627,365)	(283,089)
Other operating expenses	(22,426)	(19,584)
Interest income	257	216
Interest expense	(2,775)	(310)
Other income	2,898	-
Loss before and after tax	(25,620)	(111,441)
Other comprehensive income	1,451	2,722
Total comprehensive loss	(24,169)	(108,719)
Dividend received from joint venture	-	-

Reconciliation of summarised financial information

	<u>IAAX</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Opening net (liabilities)/assets at 1 January	(29,274)	76,666
Loss for the financial year	(24,169)	(108,719)
Effect of foreign exchange translation	(12,670)	2,779
Closing net liabilities at 31 December	(66,113)	(29,274)
Interest in joint venture (49%)	-	-
Unrecognised share of loss (49%)		
- for the financial year	11,843	15,706
- cumulative as at 31 December	27,549	15,706
Carrying value at 31 December	-	-

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**19 DERIVATIVE FINANCIAL INSTRUMENTS**

	<u>2016</u>		<u>Group and Company</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current</u>				
Commodity derivatives				
– held for trading	28,153	-	-	(7,585)
– cash flow hedges	106,582	-	-	(107,630)
	<u>134,735</u>	<u>-</u>	<u>-</u>	<u>(115,215)</u>

The full fair value of a hedging derivative is classified as a non-current asset if the remaining maturity of the hedge item is more than 12 months and, as a current asset, if the maturity of the hedged item is less than 12 months. Derivatives held for trading are those which do not qualify for hedge accounting.

**(i) Fuel contracts**

The outstanding number of barrels of Brent and fuel derivative contracts as at 31 December 2016 was 4,012,809 barrels (2015: 2,377,903 barrels).

As at 31 December 2016, the Group has entered into Singapore Jet Kerosene fixed swap which represents up to 0.35% (2015: 38%) of the Group's total expected fuel volume for the financial year 31 December 2017. The Group has also entered into Brent option and Crack fixed swap contracts which represent an additional 77% (2015: 4%) of the Group's total expected fuel volume for the financial year 2017. This is to hedge against the fuel price risk that the Group is exposed to. Gains and losses recognised in the hedging reserve in equity on Brent and fuel derivative contracts as of 31 December 2016 are recognised in the income statement in the period or periods during which the hedged forecast transactions affects the income statement.

**20 INVENTORIES**

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Beverages, consumables and in-flight merchandise	<u>14,151</u>	<u>3,985</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**21 RECEIVABLES AND PREPAYMENTS**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Trade receivables	124,786	115,454	125,187	115,454
Less: Allowance for impairment of receivables	(746)	(196)	(746)	(196)
	124,040	115,258	124,441	115,258
Other receivables	73,791	79,093	73,783	79,086
Less: Allowance for impairment of receivables	(13,789)	(2,754)	(13,789)	(2,754)
	60,002	76,339	59,994	76,332
Deposits	28,008	29,325	27,884	29,285
Prepayments	73,034	61,541	73,019	61,528
	<u>285,084</u>	<u>282,463</u>	<u>285,338</u>	<u>282,403</u>

The normal credit terms of the Group and Company range from 15 to 30 days (2015: 15 to 30 days).

(a) Trade receivables

(i) Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired for the Group and Company of RM13,984,000 and RM14,385,000 respectively (2015: Group and Company: RM82,966,000), are substantially from companies with good collection track records.

(ii) Financial assets that are past due but not impaired

As of 31 December 2016, trade receivables for the Group and Company of RM110,056,000 (2015: RM32,292,000) were past due but not impaired. These debts relate to a number of independent customers for whom there is no recent history of default.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**21 RECEIVABLES AND PREPAYMENTS (CONTINUED)**

**(a) Trade receivables (continued)**

**(ii) Financial assets that are past due but not impaired (continued)**

The ageing analysis of these trade receivables that are past due but not impaired is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Less than 30 days	23,978	10,605	23,978	10,605
Between 31 and 60 days	12,738	1,873	12,738	1,873
Between 61 and 90 days	4,537	814	4,537	814
Between 91 and 120 days	9,315	3,782	9,315	3,782
Between 121 and 180 days	15,945	6,617	15,945	6,617
More than 180 days	43,543	8,601	43,543	8,601
	<u>110,056</u>	<u>32,292</u>	<u>110,056</u>	<u>32,292</u>

**(iii) Financial assets that are past due and impaired**

The carrying amounts of trade receivables individually determined to be impaired are as follows:

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
More than 180 days	746	196
Less: Allowance for impairment of receivables	(746)	(196)
	<u>-</u>	<u>-</u>

The individually impaired trade receivables relate mainly to disputed balances with customers or balances for which management is of the view that the amounts may not be recoverable.

Movements on the allowance for impairment of trade receivables are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
At 1 January	196	196	196	196
Allowance for impairment (Note 6)	550	-	550	-
At 31 December	<u>746</u>	<u>196</u>	<u>746</u>	<u>196</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**21 RECEIVABLES AND PREPAYMENTS (CONTINUED)**

**(b) Other receivables**

Other receivables include refunds of value-added tax receivable from the authorities in various countries in which the Group operates.

**(i) Financial assets that are neither past due nor impaired**

Other receivables that are neither past due nor impaired for the Group and Company of RM37,672,000 and RM37,664,000 (2015: Group: RM52,545,000, Company: RM52,538,000) respectively are substantially with companies with good collection track records.

**(ii) Financial assets that are past due but not impaired**

As at 31 December 2016, other receivables for the Group and Company of RM22,330,000 (2015: RM23,794,000) were past due. These debts relate to a number of external parties where there is no expectation of default. The ageing analysis of these other receivables that are past due but not impaired is as follows:

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Less than 30 days	9,200	5,647
Between 31 and 60 days	-	134
Between 61 and 90 days	1,353	502
Between 91 and 120 days	-	6,698
Between 121 and 180 days	262	5,231
More than 180 days	11,515	5,582
	<u>22,330</u>	<u>23,794</u>

**(iii) Financial assets that are past due and impaired**

The carrying amounts of other receivables individually determined to be impaired are as follows:

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
More than 180 days	13,789	2,754
Less: Allowance for impairment of receivables	(13,789)	(2,754)
	<u>-</u>	<u>-</u>

The individually impaired other receivables relate mainly to disputed balances with customers or balances for which management is of the view that the amounts may not be recoverable.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**21 RECEIVABLES AND PREPAYMENTS (CONTINUED)**

(b) Other receivables (continued)

(iii) Financial assets that are past due and impaired (continued)

Movements on the allowance for impairment of other receivables are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
At 1 January	2,754	2,754	2,754	2,754
Allowance for impairment (Note 6)	11,035	-	11,035	-
At 31 December	<u>13,789</u>	<u>2,754</u>	<u>13,789</u>	<u>2,754</u>

The currency profile of receivables and deposits (excluding prepayments) is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	123,505	59,901	123,505	59,901
US Dollar	21,743	91,049	21,743	91,049
Australian Dollar	27,042	59,736	27,311	59,689
Euro	1,230	588	1,230	588
Indian Rupee	3,522	1,529	3,522	1,529
New Zealand Dollar	310	-	310	-
Others	34,698	8,119	34,698	8,119
	<u>212,050</u>	<u>220,922</u>	<u>212,319</u>	<u>220,875</u>

The other classes within receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group and Company do not hold any collateral as security.

Deposits of the Group and Company at the balance sheet date are with a number of external parties for which there is no expectation of default.

Included in prepayments are advances made for purchases of fuel, lease of aircraft and maintenance of engines.

Deposits include funds placed with lessor in respect of maintenance of the leased aircraft.

The carrying amounts of the Group's and Company's trade and other receivables approximate their fair values.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**22 AMOUNTS DUE FROM / (TO) RELATED PARTIES, AN ASSOCIATE, A JOINT VENTURE AND SUBSIDIARIES**

The amounts due from/(to) related parties are in respect of trading transactions. The normal credit terms of the Group and Company range from 30 to 60 days (2015: 30 to 60 days).

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Amounts due from related parties	51,561	30,103	51,561	29,330
Amount due from a joint venture	112,816	55,570	112,816	55,570
Amount due from an associate	69,590	26,150	-	-
Amount due from a subsidiary	-	-	69,590	26,150
	<u>233,967</u>	<u>111,823</u>	<u>233,967</u>	<u>111,050</u>
Amounts due to related parties	(25,256)	(45,668)	(25,879)	(45,668)
Amounts due to subsidiaries	-	-	(1,488)	(2,263)
	<u>(25,256)</u>	<u>(45,668)</u>	<u>(27,367)</u>	<u>(47,931)</u>

The currency profile of amounts due from related parties, a joint venture, an associate and a subsidiary are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	34,725	15,797	34,725	15,797
Australian Dollar	-	773	-	-
US Dollar	198,371	94,108	198,371	94,108
Others	871	1,145	871	1,145
	<u>233,967</u>	<u>111,823</u>	<u>233,967</u>	<u>111,050</u>

Amounts due from related parties, an associate, a joint venture, and a subsidiary that are neither past due nor impaired for the Group and Company amounted to RM20,126,000 (2015: RM44,552,000 and RM43,779,000) respectively.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**22 AMOUNTS DUE FROM / (TO) RELATED PARTIES, AN ASSOCIATE, A JOINT VENTURE AND SUBSIDIARIES (CONTINUED)**

The ageing analysis of amounts due from related parties, an associate, a joint venture and a subsidiary that are past due but not impaired is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Less than 6 months	103,121	62,105	103,121	62,105
More than 6 months	110,720	5,166	110,720	5,166
	<u>213,841</u>	<u>67,271</u>	<u>213,841</u>	<u>67,271</u>

The maximum exposure to credit risk as at the balance sheet date is the carrying value of the amounts due from related parties, an associate, a joint venture, and a subsidiary mentioned above.

The Group and Company have not made any impairment on these balances as management is of the view that these amounts are recoverable as there is no history of default.

The currency profile of amounts due to related parties, an associate and subsidiaries are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	10,660	16,184	10,660	16,184
Australian Dollar	-	-	1,488	1,450
US Dollar	14,596	29,484	15,219	29,484
New Zealand Dollar	-	-	-	813
	<u>25,256</u>	<u>45,668</u>	<u>27,367</u>	<u>47,931</u>

**23 DEPOSITS, CASH AND BANK BALANCES**

For the purposes of the statements of cash flows, cash and cash equivalents include the following:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	382,406	252,347	380,790	251,832
Deposits with licensed banks	39,615	58,442	39,615	58,442
	<u>422,021</u>	<u>310,789</u>	<u>420,405</u>	<u>310,274</u>
Deposits pledged as securities	(39,615)	(58,442)	(39,615)	(58,442)
Cash and cash equivalents	<u>382,406</u>	<u>252,347</u>	<u>380,790</u>	<u>251,832</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**23 DEPOSITS, CASH AND BANK BALANCES (CONTINUED)**

The currency profile of deposits, cash and bank balances is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	263,547	154,841	263,308	154,841
US Dollar	53,261	92,039	53,261	92,039
Australian Dollar	16,125	22,846	14,517	22,338
Chinese Renminbi	13,497	19,949	13,497	19,949
Japanese Yen	8,210	3,511	8,210	3,511
Indian Rupee	8,834	1,589	8,834	1,589
Euro	888	1,349	888	1,349
Others	57,659	14,665	57,890	14,658
	<u>422,021</u>	<u>310,789</u>	<u>420,405</u>	<u>310,274</u>

The Group and Company's weighted average effective interest rate of deposits at the balance sheet date is 2.98 % (2015: 2.77 %) per annum.

The deposits with licensed banks of the Group and Company amounting to RM39,615,000 (2015: RM58,442,000) are pledged as securities for banking facilities granted to the Group and Company (Note 26).

**24 NON-CURRENT ASSETS HELD FOR SALE**

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Property, plant and equipment	<u>92,781</u>	<u>105,116</u>

The non-current assets held for sale are for certain aircraft equipments for which potential buyers have been identified. The sale is expected to be completed before the end of 2017.

**25 TRADE AND OTHER PAYABLES**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
<u>Non-current:</u>				
Aircraft maintenance provision	591,574	409,098	591,574	409,098
Other deposits	62,796	30,837	62,796	30,837
	<u>654,370</u>	<u>439,935</u>	<u>654,370</u>	<u>439,935</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**25 TRADE AND OTHER PAYABLES (CONTINUED)**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current:</u>				
Trade payables	251,253	401,618	251,253	401,308
Other payables and accruals	626,993	447,457	626,252	446,971
	<u>878,246</u>	<u>849,075</u>	<u>877,505</u>	<u>848,279</u>

Included in other payables and accruals are operational expenses and passenger service charges payable to airport authorities.

The credit term of trade payables granted to the Group and Company is 0 to 90 days (2015: 0 to 90 days).

The currency profile of trade and other payables (excluding aircraft maintenance provision) is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	140,258	318,815	140,236	318,815
US Dollar	480,746	415,258	480,746	415,258
Australian Dollar	107,870	64,209	107,151	63,413
Euro	7,600	9,013	7,600	9,013
Indian Rupee	1,759	-	1,759	-
Japanese Yen	58,687	28,536	58,687	28,536
Chinese Renminbi	46,229	27,723	46,229	27,723
Others	97,893	16,358	97,893	16,358
	<u>941,042</u>	<u>879,912</u>	<u>940,301</u>	<u>879,116</u>

The movement in aircraft maintenance provision is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
At 1 January	409,098	-	409,098	-
Additions during the year	182,476	409,098	182,476	409,098
At 31 December	<u>591,574</u>	<u>409,098</u>	<u>591,574</u>	<u>409,098</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**26 BORROWINGS**

	<u>Weighted average rate of finance</u>		<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	%	%	RM'000	RM'000
<u>Current</u>				
Secured:				
- Revolving credit	-	4.52	-	120,120
- Term loans	3.17	3.02	208,222	199,341
- Hire purchase	2.80	2.80	16	16
			<u>208,238</u>	<u>319,477</u>
<u>Non-current</u>				
Secured:				
- Term loans	3.17	3.02	952,072	1,109,577
- Hire purchase	2.80	2.80	16	33
			<u>952,088</u>	<u>1,109,610</u>
Total borrowings			<u>1,160,326</u>	<u>1,429,087</u>

Total borrowings consist of the following banking facilities:

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Fixed rate borrowings	643,362	755,485
Floating rate borrowings	516,964	673,602
	<u>1,160,326</u>	<u>1,429,087</u>

The Group's and Company's borrowings are repayable as follows:

Not later than 1 year	208,238	319,477
Later than 1 year and not later than 5 years	832,912	781,653
Later than 5 years	119,176	327,957
	<u>1,160,326</u>	<u>1,429,087</u>

The currency profile of borrowings is as follows:

Ringgit Malaysia	33	49
US Dollar	1,160,293	1,429,038
	<u>1,160,326</u>	<u>1,429,087</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**26 BORROWINGS (CONTINUED)**

The carrying amounts and fair values of the fixed rate borrowings are as follows:

	2016		Group and Company	
	Carrying amount	Fair value	Carrying amount	Fair value
	RM'000	RM'000	RM'000	RM'000
Term loans	643,329	652,237	755,436	726,472
Hire purchase	33	20	49	55
	<u>643,362</u>	<u>652,257</u>	<u>755,485</u>	<u>726,527</u>

The fair values of floating rate borrowings approximates their carrying amounts, as the impact of discounting is not significant.

The fair values of the fixed rate borrowings are based on cash flows discounted using borrowing rates that are reflective of the Group and Company's credit risk at the balance sheet date, at 1.76% (2015: 3.83%) per annum. The fair values of fixed rate borrowings are within level 2 of the fair value hierarchy.

Revolving credit facilities

The revolving credit facility was to finance pre-delivery payments ("PDPs") in respect of the Group's and Company's firm order of Airbus A330-300 aircraft, with an option to acquire additional Airbus A330-300 aircraft. The facility becomes repayable upon delivery of the relevant aircraft and carries interest ranging from 3.2% to 3.25% (2015: 3.2% to 3.25%) per annum above the bank's USD cost of funds.

The revolving credit was fully repaid during the financial year.

Term loans

The term loans are for the purchase of new Airbus A330-300 aircraft. The repayment of the term loans is on a quarterly basis over 10 to 12 years, with equal principal instalments, at a combination of floating rate of LIBOR + 0.8% and fixed interest rates of between 2.82% to 5.45% (2015: 2.82% to 5.45%) per annum. The term loans are secured by the following:

- (a) Assignment of rights under contract with Airbus over each aircraft;
- (b) Assignment of insurance of each aircraft; and
- (c) Assignment of airframe and engine warranties of each aircraft.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**27 SHARE CAPITAL**

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
<u>Authorised:</u>		
Ordinary shares of RM0.15 each:		
At beginning of financial year	1,000,000	500,000
Created during the financial year	-	500,000
	<u>1,000,000</u>	<u>1,000,000</u>
At end of financial year	<u>1,000,000</u>	<u>1,000,000</u>
Total authorised	<u>1,000,000</u>	<u>1,000,000</u>
	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
<u>Issued and fully paid up:</u>		
Ordinary shares of RM0.15 each:		
At beginning of financial year	622,222	355,556
Issuance of shares during the financial year	-	266,666
	<u>622,222</u>	<u>622,222</u>
At end of financial year	<u>622,222</u>	<u>622,222</u>
Total issued and fully paid up	<u>622,222</u>	<u>622,222</u>

On 27 March 2015, the authorised share capital of the Company was increased from RM500,000,000 comprising 3,333,333,333 ordinary shares to RM1,000,000,000 comprising 6,666,666,667 ordinary shares.

On 11 June 2015, the Company completed a renounceable rights issue of new ordinary shares of RM0.15 each in the Company together with free detachable warrants for working capital purpose. As a result, 1,777,777,790 ordinary shares of RM0.15 each were issued during the financial year. These new ordinary shares rank pari passu with the existing ordinary shares. Following the completion of the exercise, the issued and fully paid ordinary shares of the Company consists of 4,148,148,177 ordinary shares of RM0.15 each with a share premium of RM911,820,644 and warrant reserve of RM62,222,223.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**27 SHARE CAPITAL (CONTINUED)**

**EMPLOYEE SHARE OPTION SCHEME ("ESOS")**

The Company had implemented an ESOS which entails the issuance of up to ten percent (10%) of the issued and paid-up share capital of the Company at any one time pursuant to the exercise of options to be granted under the ESOS, to full-time eligible employees of the Group ("ESOS Options"). The tenure of the ESOS shall be five (5) years with an option to extend for a further five (5) years, subject to a maximum duration of ten (10) years. The ESOS is governed by the By-Laws which were approved by the shareholders on 12 October 2012.

The main features of the ESOS are as follows:

- (a) The maximum number of ordinary shares, which may be allotted pursuant to the exercise of options under the scheme, shall not exceed ten per cent (10%) of the issued and paid-up share capital of the Company at any point in time during the duration of the scheme.
- (b) The ESOS Committee duly authorised by the Board (and governed by the By-Laws) may, at its absolute discretion, offer such number of ESOS Options to the eligible employees during the subsistence of the ESOS, provided that such number of new shares issued under the ESOS Options granted shall not exceed the maximum number permitted under the listing requirements of Bursa Malaysia, the By-Laws and any laws, regulations and guidelines issued by other relevant authorities.
- (c) An eligible employee who accepts an offer of ESOS Option must return, on or before the expiry date, the duly completed prescribed acceptance form accompanied by the payment of the sum of RM1.00 as a consideration for acceptance of that offer. If that offer is not accepted in such manner, the offer shall, upon the expiry date, automatically lapse and be null and void.
- (d) The options granted are exercisable in tranches of 25% at each anniversary of date of grant.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**27 SHARE CAPITAL (CONTINUED)**

**EMPLOYEE SHARE OPTION SCHEME (“ESOS”) (CONTINUED)**

The shares to be allotted and issued upon any valid exercise of options will, upon such allotment and issuance, rank pari passu in all respects with the existing and issued shares except that such shares so issued will not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to shareholders prior to the date of allotment of such shares. The options shall not carry any right to vote at a general meeting of the Company.

Set out below are details of options over the ordinary shares of the Company granted under the ESOS:

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u> RM/share	<u>At 1.1.2016</u> '000	<u>Adjustment</u> '000	<u>Exercised</u> '000	<u>Forfeited</u> '000	<u>At 31.12.2016</u> '000
1 July 2013	11 October 2017	0.99*	3,976	-	-	(205)	3,771

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u> RM/share	<u>At 1.1.2015</u> '000	<u>Adjustment</u> '000	<u>Exercised</u> '000	<u>Forfeited</u> '000	<u>At 31.12.2015</u> '000
1 July 2013	11 October 2017	0.99*	6,150	181*	-	(2,355)	3,976

\* The exercise price of the options and number of options granted were adjusted as a result of the rights issue exercise on 11 June 2015.

Out of the 3,770,663 outstanding options (2015: 3,976,148 outstanding options), 2,920,663 options (2015: 3,076,148 options) were exercisable as at the end of the reporting period.

The fair value as at the grant date of share options was determined using the Black Scholes valuation model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used were as follows:

	<u>2016</u>	<u>2015</u>
Expected volatility (%)	33.97	33.97
Risk-free interest rate (%)	3.84	3.84
Expected life of option (years)	4	4
Share price at date of grant (RM)	1.25	1.25
Exercise price of option (RM)	1.25	1.25
Fair value of option at date of grant (RM)	0.41	0.41

Volatility is measured over a 4-year period to increase the credibility of assumption.

The amount recognised in the financial statements (Note 5) for all employees arising from the ESOS to the Group and Company are RM484,000 (2015: RM559,000).

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**28 OTHER RESERVES**

	Cash flow hedge reserve RM'000	Share option reserve RM'000	Total RM'000
<u>Group and Company</u>			
At 1 January 2016	(107,630)	2,074	(105,556)
Net change in fair value	106,582	484	107,066
Amounts transferred to income statement	107,630	-	107,630
At 31 December 2016	<u>106,582</u>	<u>2,558</u>	<u>109,140</u>
At 1 January 2015	6,478	1,515	7,993
Net change in fair value	(107,630)	559	(107,071)
Amounts transferred to income statement	(6,478)	-	(6,478)
At 31 December 2015	<u>(107,630)</u>	<u>2,074</u>	<u>(105,556)</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**29 COMMITMENTS**

(a) Capital commitments not provided for in the financial statements are as follows:

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Property, plant and equipment – approved and contracted for:		
- Not later than 1 year	-	-
- Later than 1 year and not later than 5 years	30,289,045	19,064,614
- Later than 5 years	88,803,156	94,842,046
	<u>119,092,201</u>	<u>113,906,660</u>

Included in capital commitments as at 31 December 2016 is the purchase of Airbus A330 and A350 aircraft over the next 12 years.

(b) Non-cancellable operating leases

The future minimum lease payments and sublease receipts under non-cancellable operating leases are as follows:

	<u>Group and Company</u>			
	<u>2016</u>		<u>2015</u>	
	<u>Future minimum lease payments</u>	<u>Future minimum sublease receipts</u>	<u>Future minimum lease payments</u>	<u>Future minimum sublease receipts</u>
	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	1,024,614	315,396	987,113	293,769
Later than 1 year and not later than 5 years	4,094,546	1,261,582	3,920,000	1,206,650
Later than 5 years	3,893,976	954,762	4,700,684	1,214,852
	<u>9,013,136</u>	<u>2,531,740</u>	<u>9,607,797</u>	<u>2,715,271</u>

The Group leases various aircraft and engines under non-cancellable operating lease agreements. The lease terms are between 10 to 12 years.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**30 SIGNIFICANT RELATED PARTY TRANSACTIONS**

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party disclosures.

The related parties of the Company and their relationships at 31 December 2016 are as follows:

<u>Name of Companies</u>	<u>Relationship</u>
AirAsia X Services Pty Ltd	Subsidiary
AirAsia X Mauritius One Ltd	Subsidiary
Thai AirAsia X Co., Ltd	Associate
PT Indonesia AirAsia Extra	Joint Venture
AirAsia Berhad	Shareholder of the Company for which there is no control, significant influence or joint control; common Directors and shareholders
CaterhamJet Global Ltd	Common Directors and shareholders
<u>Associates of AirAsia Berhad</u>	
- Thai AirAsia Co., Ltd	Common Directors and shareholders
- PT Indonesia AirAsia	Common Directors and shareholders
- AirAsia Japan Co. Ltd	Common Directors and shareholders
- Philippines AirAsia (formerly known as AirAsia Inc	Common Directors and shareholders
- Philippines AirAsia Inc (formerly known as Zest Airway Inc	Common Directors and shareholders
- AirAsia (India) Pvt Ltd	Common Directors and shareholders
- AAE Travel Pte Ltd	Common Directors and shareholders
<u>Joint venture of AirAsia Berhad</u>	
- Asian Aviation Centre of Excellence Sdn Bhd	Common shareholders
<u>Subsidiaries of AirAsia Berhad</u>	
- AirAsia Global Shared Services Sdn Bhd	Common Directors and shareholders
- Rokki Sdn Bhd (formerly known as Tune Box Sdn Bhd)	Common Directors and shareholders
- Think Big Digital Sdn Bhd	Common Directors and shareholders
- TPAAY Asia Sdn Bhd (formerly known as Tune Money Sdn Bhd)	Common Directors and shareholders
<u>Other related entities</u>	
- Tune Protect Re Ltd (formerly known as Tune GenRe Ltd)	Common Directors and shareholders
- Tune Insurance Malaysia Berhad	Common Directors and shareholders

All related party transactions were carried out on agreed terms and conditions.

Key management personnel are categorised as head or senior management officers of key operating divisions within the Group and Company. The key management compensation is disclosed in Note 30(g) below.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**30 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
(a) <u>Income:</u>				
Aircraft operating lease income for leased aircraft				
- AAX Mauritius One Limited	-	-	329,402	179,025
- PT Indonesia AirAsia Extra	110,732	94,989	110,732	94,989
- Thai AirAsia X Co., Ltd	329,402	179,025	-	-
Provision of carried passenger services to				
- AirAsia Berhad	42,867	10,940	42,867	10,940
- Thai AirAsia X Co., Ltd	-	16,542	-	16,542
Commission on travel insurance for passengers charged to				
- Tune Insurance Malaysia Berhad	3,920	5,211	3,920	5,211
Management fees charged to				
- PT Indonesia AirAsia	1,509	1,361	-	-
(b) <u>Recharges:</u>				
Recharges of expenses to				
- PT Indonesia AirAsia	1,271	5,835	1,271	5,835
- PT Indonesia AirAsia Extra	3,260	2,082	3,260	2,082
- Thai AirAsia X Co., Ltd	10,370	1,819	10,370	1,819
- Thai AirAsia Co., Ltd	979	2,598	979	2,598
- Philippines AirAsia Inc	3,784	3,663	3,784	3,663
- Philippines AirAsia	-	1,884	-	1,884
Recharges of expenses by				
- AirAsia Berhad	(65,640)	(7,833)	(65,640)	(7,833)
- AirAsia Japan Co., Ltd.	(604)	-	(604)	-
- AirAsia (India) Pvt Ltd	(841)	-	(841)	-
(c) <u>Other charges:</u>				
Management fees charged by				
- AirAsia X Services Pty Ltd	-	-	(6,836)	(3,983)
Brand license fee charged by				
- AirAsia Berhad	(8,530)	(8,530)	(8,530)	(8,530)
Training services charged by				
- Asian Aviation Centre of Excellence Sdn Bhd	(11,032)	(13,214)	(11,032)	(13,214)

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**30 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
(c) <u>Other charges:</u> (continued)				
In-flight entertainment system and software expense charged by				
- Rokki Sdn Bhd	(3,827)	(2,536)	(3,827)	(2,536)
Charter air travel services charged by				
- CaterhamJet Global Ltd	(6,606)	(6,386)	(6,606)	(6,386)
Shared service management fee charged by				
- AirAsia Global Shared Services Sdn Bhd	(5,126)	(2,481)	(5,126)	(2,481)
(d) <u>Premium collected on travel insurance for passengers paid to:</u>				
- Tune Insurance Malaysia Berhad	(15,681)	(20,843)	(15,681)	(20,843)
(e) <u>Receivables:</u>				
- AAX Mauritius One Limited	-	-	69,590	26,150
- PT Indonesia AirAsia	-	9,548	-	9,548
- Philippines AirAsia (including Philippines AirAsia Inc)	8,862	7,273	8,862	7,273
- Thai AirAsia X Co., Ltd	69,590	26,150	-	-
- PT Indonesia AirAsia Extra	112,816	55,570	112,816	55,570
- AirAsia Berhad	34,719	1,513	34,719	1,513
- AirAsia (India) Pvt Ltd	6,751	4,431	6,751	4,431
- Others	1,229	7,338	1,229	6,565
	<u>233,967</u>	<u>111,823</u>	<u>233,967</u>	<u>111,050</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**30 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
(f) <u>Payables:</u>				
- Asian Aviation Centre of Excellence Sdn Bhd	5,483	4,224	5,483	4,224
- Rokki Sdn Bhd	1,307	1,058	1,307	1,058
- Tune Insurance Malaysia Berhad	6,454	2,676	6,454	2,676
- PT Indonesia AirAsia	881	-	1,504	-
- Thai AirAsia Co., Ltd	5,806	30,030	5,806	30,030
- AirAsia X Services Pty Ltd	-	-	1,488	1,450
- CaterhamJet Global Ltd	2,552	2,415	2,552	2,415
- Philippines AirAsia Inc	-	4,538	-	4,538
- Others	2,773	727	2,773	1,540
	<u>25,256</u>	<u>45,668</u>	<u>27,367</u>	<u>47,931</u>
(g) <u>Key management compensation:</u>				
- basic salaries, bonus and allowances	9,643	7,863	9,643	7,863
- defined contribution plan	1,007	891	1,007	891
- fees	636	721	636	721
	<u>11,286</u>	<u>9,475</u>	<u>11,286</u>	<u>9,475</u>

Included in the key management compensation is Executive Director's remuneration as disclosed in Note 5 to the financial statements.

**31 FINANCIAL RISK MANAGEMENT POLICIES**

The Group's and Company's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Group's and Company's businesses whilst managing their market risk (including fuel price risk, interest rate risk and foreign currency exchange risk), credit risk and liquidity and cash flow risk. The Group and Company operate within defined guidelines that are approved and reviewed periodically by the Board of Directors to minimise the effects of such volatility on their financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group and the Company. The management team then establishes detailed policies such as risk identification and measurement, exposure limits and risk management strategies. Risk management policies and procedures are reviewed regularly to reflect changes in the market condition, and the Group's and Company's activities.

The Group and Company also seek to ensure that the financial resources that are available for the development of the Group's and Company's businesses are constantly monitored and managed vis-a-vis its ongoing exposure to fuel price, interest rate, foreign currency exchange, credit, liquidity and cash flow risks.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

The policies in respect of the major areas of treasury activities are as follows:

**(a) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign currency exchange rates, jet fuel prices and interest rates. The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimising the return on risk.

**(i) Fuel price risk**

The Group and Company are exposed to jet fuel price risk arising from the fluctuations in the prices of jet fuel. The Group and Company rely on a related party for certain treasury activities, including hedging of fuel price, which is contracted and managed by the related party. Any gain or loss arising from fuel hedging is recognised when the risk transfers to the Group and Company upon consumption of the fuel, within "Aircraft fuel expenses" in Operating Expenses.

During the financial year ended 31 December 2016, the Group and Company entered into Singapore Jet Kerosene fixed swap, Brent option and Crack swap contracts. There were 4,012,809 barrels (2015: 2,377,903 barrels) of Brent and fuel contracts outstanding as at 31 December 2016.

As at 31 December 2016, if USD denominated barrel had been USD5 higher/lower with all other variables held constant, the impact on the post-tax profit and equity for the year end equity are tabulated below:

	<u>2016</u>		<u>2015</u>	
	<u>+USD5</u> RM'000	<u>-USD5</u> RM'000	<u>+USD5</u> RM'000	<u>-USD5</u> RM'000
Impact on post tax profits	(8,727)	424	2,515	(3,081)
Impact on other comprehensive income	<u>76,857</u>	<u>(66,499)</u>	<u>38,811</u>	<u>(38,811)</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(a) Market risk (continued)**

**(ii) Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

In view of the substantial borrowings taken to finance the acquisition of aircraft, the Group's and Company's income and operating cash flows are also influenced by changes in market interest rates. Interest rate exposure arises from the Group's and Company's floating rate borrowings and deposits. Surplus funds are placed with reputable financial institutions at the most favourable interest rate.

At 31 December 2016, if interest rate on USD denominated borrowings had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the financial year are tabulated below:

	<u>2016</u>		<u>2015</u>	
	<u>+60bps</u>	<u>-60bps</u>	<u>+60bps</u>	<u>-60bps</u>
	RM'000	RM'000	RM'000	RM'000
Impact on post tax profits	<u>(3,538)</u>	<u>3,538</u>	<u>(3,497)</u>	<u>3,497</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(a) Market risk (continued)

(iii) Foreign currency risk

Apart from Ringgit Malaysia ("RM"), the Group and Company transact business in various foreign currencies including United States Dollar ("USD"), Australian Dollar ("AUD"), EURO, Indian Rupee ("INR"), Chinese Renminbi ("RMB") and Japanese Yen ("JPY"). In addition, the Group and Company have significant borrowings in USD (Note 26), mainly to finance the purchase of aircraft and pre-delivery payments in respect of the Group's and Company's firm order of Airbus A330-300 aircraft. Therefore, the Group and Company are exposed to currency exchange risk. These exposures are managed, to the extent possible, by natural hedges that arise when payments for foreign currency payables are matched against receivables denominated in the same foreign currency, or whenever possible by intragroup arrangements and settlements.

As at 31 December 2016, if RM had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the financial year for the Group and Company would have been RM40.4 million (2015: RM42.6 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated receivables and borrowings. Similarly, the impact on other comprehensive income would have been RM6.7 million (2015: RM5.4 million) higher/lower due to the cash flow hedging in USD. The exposure to other foreign currency risk of the Group and the Company is not material and hence, sensitivity analysis is not presented.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(a) Market risk (continued)**

**(iii) Foreign currency risk (continued)**

The Group's currency exposure is as follows:

<u>At 31 December 2016</u>	<u>USD</u>	<u>AUD</u>	<u>EURO</u>	<u>INR</u>	<u>RMB</u>	<u>JPY</u>	<u>Others</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Financial assets</u>							
<u>Receivables</u>							
Amounts due from related parties, an associate, and a joint venture	21,743	27,042	1,230	3,522	1,909	16,182	16,917
Deposits, cash and bank balances	198,371	-	-	-	-	-	871
Other deposits *	53,261	16,125	888	8,834	13,497	8,210	57,659
Derivative financial instruments	439,293	-	-	-	-	-	-
	134,735	-	-	-	-	-	-
	<u>847,403</u>	<u>43,167</u>	<u>2,118</u>	<u>12,356</u>	<u>15,406</u>	<u>24,392</u>	<u>75,447</u>
<u>Financial liabilities</u>							
<u>Trade and other payables</u>							
Amounts due to related parties	480,746	107,870	7,600	1,759	46,229	58,687	97,893
Borrowings	14,596	-	-	-	-	-	-
	<u>1,160,293</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,655,635</u>	<u>107,870</u>	<u>7,600</u>	<u>1,759</u>	<u>46,229</u>	<u>58,687</u>	<u>97,893</u>
<b>Net exposure</b>	<b>(808,232)</b>	<b>(64,703)</b>	<b>(5,482)</b>	<b>10,597</b>	<b>(30,823)</b>	<b>(34,295)</b>	<b>(22,446)</b>

\* Includes currency exposure for other deposits that are financial assets only.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(a) Market risk (continued)**

**(iii) Foreign currency risk (continued)**

The Group's currency exposure is as follows: (continued)

<u>At 31 December 2015</u>	<u>USD</u>	<u>AUD</u>	<u>EURO</u>	<u>INR</u>	<u>RMB</u>	<u>JPY</u>	<u>Others</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Financial assets</u>							
<u>Receivables</u>							
Amounts due from related parties, an associate, and a joint venture	91,049	59,736	588	1,529	1,531	3,584	3,004
Deposits, cash and bank balances	94,108	773	-	-	1,145	-	-
Other deposits *	92,039	22,846	1,349	1,589	19,949	3,511	14,665
	443,175	-	-	-	-	-	-
	<u>720,371</u>	<u>83,355</u>	<u>1,937</u>	<u>3,118</u>	<u>22,625</u>	<u>7,095</u>	<u>17,669</u>
<u>Financial liabilities</u>							
Trade and other payables	415,258	64,209	9,013	-	27,723	28,536	16,358
Amounts due to related parties	29,484	-	-	-	-	-	-
Borrowings	1,429,038	-	-	-	-	-	-
Derivative financial instruments	115,215	-	-	-	-	-	-
	<u>1,988,995</u>	<u>64,209</u>	<u>9,013</u>	<u>-</u>	<u>27,723</u>	<u>28,536</u>	<u>16,358</u>
<b>Net exposure</b>	<b>(1,268,624)</b>	<b>19,146</b>	<b>(7,076)</b>	<b>3,118</b>	<b>(5,098)</b>	<b>(21,441)</b>	<b>1,311</b>

\* Includes currency exposure for other deposits that are financial assets only.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(a) Market risk (continued)**

**(iii) Foreign currency risk (continued)**

The Company's currency exposure is as follows:

<u>At 31 December 2016</u>	<u>USD</u>	<u>AUD</u>	<u>EURO</u>	<u>INR</u>	<u>RMB</u>	<u>JPY</u>	<u>Others</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Financial assets</u>							
<u>Receivables</u>							
Amounts due from related parties, a joint venture and a subsidiary	21,743	27,311	1,230	3,522	1,909	16,182	16,917
Deposits, cash and bank balances	198,371	-	-	-	-	-	871
Other deposits *	53,261	14,517	888	8,834	13,497	8,210	57,890
Derivative financial instruments	439,293	-	-	-	-	-	-
	134,735	-	-	-	-	-	-
	<u>847,403</u>	<u>41,828</u>	<u>2,118</u>	<u>12,356</u>	<u>15,406</u>	<u>24,392</u>	<u>75,678</u>
<u>Financial liabilities</u>							
<u>Trade and other payables</u>							
Amounts due to related parties	480,746	107,151	7,600	1,759	46,229	58,687	97,893
and subsidiaries	15,219	1,488	-	-	-	-	-
Borrowings	1,160,293	-	-	-	-	-	-
	<u>1,656,258</u>	<u>108,639</u>	<u>7,600</u>	<u>1,759</u>	<u>46,229</u>	<u>58,687</u>	<u>97,893</u>
<u>Net exposure</u>	<u>(808,855)</u>	<u>(66,811)</u>	<u>(5,482)</u>	<u>10,597</u>	<u>(30,823)</u>	<u>(34,295)</u>	<u>(22,215)</u>

\* Includes currency exposure for other deposits that are financial assets only.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(a) Market risk (continued)**

**(iii) Foreign currency risk (continued)**

The Company's currency exposure is as follows: (continued)

<u>At 31 December 2015</u>	<u>USD</u>	<u>AUD</u>	<u>EURO</u>	<u>INR</u>	<u>RMB</u>	<u>JPY</u>	<u>Others</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Financial assets</u>							
<u>Receivables</u>							
Amounts due from related parties, a joint venture and a subsidiary	91,049	59,689	588	1,529	1,531	3,584	3,004
Deposits, cash and bank balances	94,108	-	-	-	1,145	-	-
Other deposits *	92,039	22,338	1,349	1,589	19,949	3,511	14,658
	443,175	-	-	-	-	-	-
	<u>720,371</u>	<u>82,027</u>	<u>1,937</u>	<u>3,118</u>	<u>22,625</u>	<u>7,095</u>	<u>17,662</u>
<u>Financial liabilities</u>							
<u>Trade and other payables</u>							
Amounts due to related parties and subsidiaries	415,258	63,413	9,013	-	27,723	28,536	16,358
Borrowings	29,484	1,450	-	-	-	-	813
Derivative financial instruments	1,429,038	-	-	-	-	-	-
	115,215	-	-	-	-	-	-
	<u>1,988,995</u>	<u>64,863</u>	<u>9,013</u>	<u>-</u>	<u>27,723</u>	<u>28,536</u>	<u>17,171</u>
<b>Net exposure</b>	<b>(1,268,624)</b>	<b>17,164</b>	<b>(7,076)</b>	<b>3,118</b>	<b>(5,098)</b>	<b>(21,441)</b>	<b>491</b>

\* Includes currency exposure for other deposits that are financial assets only.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(b) Credit risk**

Credit risk is the risk of financial loss to the Group and Company if a customer or a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's and Company's receivables from customers, cash and cash equivalents and financial assets (derivative instruments).

The Group's and Company's exposure to credit risk or the risk of counterparties defaulting arises mainly from various deposits and bank balances, and receivables. As the Group and Company do not hold collateral, the maximum exposure to credit risk is represented by the total carrying amounts of these financial assets in the balance sheet. Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures.

Credit risk relating to receivables is minimised by regular monitoring and, in addition, credit risk is controlled as the majority of the Group's and Company's deposits and bank balances are placed with major financial institutions and reputable parties. The Directors are of the view that the possibility of non-performance by the majority of these financial institutions is remote on the basis of their financial strength and support of their respective governments.

The Group and Company generally have no concentration of credit risk arising from trade receivables.

**(c) Liquidity and cash flow risk**

The Group's and Company's policy on liquidity risk management is to maintain sufficient cash and cash equivalents and to have available funding through adequate amounts of committed credit facilities and credit lines for working capital requirements.

Whilst the Group's and Company's current liabilities exceeded their current assets by RM642,595,000 and RM645,481,000 (2015: RM1,186,057,000 and RM1,189,005,000) respectively, the Directors are of the view that the Group and the Company will have sufficient cash flows for the next twelve months from the reporting date to meet their cash flow requirements. The Directors believe that the Group and the Company are able to realise their assets and discharge their liabilities in the normal course of business and that the financial position will be improved through future operating profits and cash flows.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(c) Liquidity and cash flow risk (continued)**

The Directors are committed to ensuring that the Group and Company will have sufficient funds to enable the Group and Company to meet their liabilities as they fall due and to carry on their business without significant curtailment of operations. This includes raising funds from the market, as evidenced from the successful completion of the renounceable rights issue exercise on 11 June 2015, as disclosed in Note 27 to the financial statements.

The table below analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

Group

	<u>Under 1 year</u> RM'000	<u>1-2 years</u> RM'000	<u>2-5 years</u> RM'000	<u>Over 5 years</u> RM'000
<u>At 31 December 2016</u>				
Term loans	240,080	233,033	568,960	212,296
Hire purchase	19	19	-	-
Trade and other payables	878,246	-	-	439,935
Amounts due to related parties	25,256	-	-	-
	<u>1,143,601</u>	<u>233,052</u>	<u>568,960</u>	<u>652,231</u>
<u>At 31 December 2015</u>				
Term loans	236,446	229,627	632,726	337,398
Revolving credit	120,860	-	-	-
Hire purchase	19	19	19	-
Trade and other payables	849,075	-	-	451,547
Amounts due to related parties	45,668	-	-	-
	<u>1,252,068</u>	<u>229,646</u>	<u>632,745</u>	<u>788,945</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(c) Liquidity and cash flow risk (continued)

Company

	<u>Under 1 year</u> RM'000	<u>1-2 years</u> RM'000	<u>2-5 years</u> RM'000	<u>Over 5 years</u> RM'000
<u>At 31 December 2016</u>				
Term loans	240,080	233,033	568,960	212,296
Hire purchase	19	19	-	-
Trade and other payables	877,505	-	-	439,935
Amounts due to related parties	25,879	-	-	-
Amounts due to subsidiaries	1,488	-	-	-
	<u>1,144,971</u>	<u>233,052</u>	<u>568,960</u>	<u>652,231</u>
<u>At 31 December 2015</u>				
Term loans	236,446	229,627	632,726	337,398
Revolving credit	120,860	-	-	-
Hire purchase	19	19	19	-
Trade and other payables	848,279	-	-	451,547
Amounts due to related parties	45,668	-	-	-
Amounts due to subsidiaries	2,263	-	-	-
	<u>1,253,535</u>	<u>229,646</u>	<u>632,745</u>	<u>788,945</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(c) Liquidity and cash flow risk (continued)**

The table below analyses the Group's and Company's derivative financial instruments for which contractual maturities are essential for an understanding of the timing of the cash flows into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than <u>1 year</u> RM'000	<u>1 – 2 years</u> RM'000	<u>2-5 years</u> RM'000	<u>Over 5 years</u> RM'000
<u>Group and Company</u>				
<u>At 31 December 2016</u>				
Net-settled derivatives				
Trading	-	-	-	-
Hedging	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>At 31 December 2015</u>				
Net-settled derivatives				
Trading	5,718	-	-	-
Hedging	108,083	-	-	-
	<u>113,801</u>	<u>-</u>	<u>-</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(d) Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the Group and Company's balance sheets) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Group and Company's balance sheets plus net debt.

The Group's and Company's overall strategy remained unchanged from 2015. The gearing ratio as at 31 December 2016 and 2015 were as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Total borrowings (Note 26)	1,160,326	1,429,087	1,160,326	1,429,087
Less: Cash and cash equivalents (Note 23)	(382,406)	(252,347)	(380,790)	(251,832)
Net debt	777,920	1,176,740	779,536	1,177,255
Total equity attributable to equity holders of the Group and Company	1,056,885	631,807	1,074,017	648,877
Total capital	1,834,805	1,808,547	1,853,553	1,826,132
Gearing ratio	42.4%	65.1%	42.1%	64.5%

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2016 and 31 December 2015, except that the Group and the Company did not meet certain financial ratio covenants for one borrowing facility totalling RM120 million as at 31 December 2015. The lender had granted indulgences to the Group and the Company from having to comply with the financial covenant ratios for the financial year ended 31 December 2015. The said borrowing facility was fully settled during the financial year. As the covenants are enforced annually, the Group monitors compliance with the financial covenant ratios at the end of each financial year. In the event of a breach, the Group will seek indulgences from the respective banks to ensure that the Group and the Company are not in default of any borrowings. The Group's and the Company's overall strategy for capital risk management remains unchanged.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(e) Fair value measurement**

The carrying amounts of cash and cash equivalents, trade and other current assets, and trade and other current liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to financial statements.

Determination of fair value and fair value hierarchy

The Group's financial instruments are measured in the balance sheet at fair value. Disclosure of fair value measurements are by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group and Company's assets and liabilities that are measured at fair value.

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>Group and Company</u>				
<u>31 December 2016</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	28,153	-	28,153
Derivatives used for hedging	-	106,582	-	106,582
	-	134,735	-	134,735
<u>31 December 2015</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	(7,585)	-	(7,585)
Derivatives used for hedging	-	(107,630)	-	(107,630)
	-	(115,215)	-	(115,215)

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(e) Fair value measurement (continued)**

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The Group's Level 2 financial instruments comprise fuel swap contracts. The fair value of fuel swap contracts is determined using forward fuel price at the balance sheet date, with the resulting value discounted back to present value.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**32 FINANCIAL INSTRUMENTS**

(a) Financial instruments by category

<u>Group</u>	<u>Assets at fair value through the profit and loss RM'000</u>	<u>Derivatives used for hedging RM'000</u>	<u>Loan and receivables RM'000</u>	<u>Total RM'000</u>
<u>31 December 2016</u>				
<u>Assets as per balance sheet</u>				
Trade and other receivables excluding prepayments and deposits	-	-	184,042	184,042
Other deposits excluding prepayments	-	-	467,302	467,302
Amounts due from related parties	-	-	51,561	51,561
Amount due from a joint venture	-	-	112,816	112,816
Amount due from an associate	-	-	69,590	69,590
Derivative financial instruments	106,582	28,153	-	134,735
Deposits, cash and bank balances	-	-	422,021	422,021
<b>Total</b>	<b>106,582</b>	<b>28,153</b>	<b>1,307,332</b>	<b>1,442,067</b>
				<u>Other financial liabilities at amortised cost RM'000</u>
<u>Liabilities as per balance sheet</u>				
Borrowings				1,160,326
Trade and other payables				941,042
Amount due to related parties				25,256
<b>Total</b>				<b>2,126,624</b>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**32 FINANCIAL INSTRUMENTS (CONTINUED)**

(a) Financial instruments by category (continued)

Group

Loan and  
receivables  
RM'000

31 December 2015

Assets as per balance sheet

Trade and other receivables excluding prepayments and deposits	191,597
Other deposits excluding prepayments	472,500
Amounts due from related parties	30,103
Amount due from a joint venture	55,570
Amount due from an associate	26,150
Deposits, cash and bank balances	310,789
<b>Total</b>	<b>1,086,709</b>

Liabilities as per balance sheet

	Liabilities at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
Borrowings	-	-	1,429,087	1,429,087
Trade and other payables	-	-	879,912	879,912
Amount due to related parties	-	-	45,668	45,668
Derivative financial instruments	7,585	107,630	-	115,215
<b>Total</b>	<b>7,585</b>	<b>107,630</b>	<b>2,354,667</b>	<b>2,469,882</b>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**32 FINANCIAL INSTRUMENTS (CONTINUED)**

(a) Financial instruments by category (continued)

<u>Company</u>	Assets at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Loan and receivables RM'000	<u>Total</u> RM'000
<u>31 December 2016</u>				
<u>Assets as per balance sheet</u>				
Trade and other receivables				
excluding prepayments and deposits	-	-	184,435	184,435
Other deposits excluding prepayments	-	-	467,178	467,178
Amounts due from related parties	-	-	51,561	51,561
Amount due from a joint venture	-	-	112,816	112,816
Amount due from a subsidiary	-	-	69,590	69,590
Derivative financial instruments	106,582	28,153	-	134,735
Deposits, cash and bank balances	-	-	420,405	420,405
<b>Total</b>	<b>106,582</b>	<b>28,153</b>	<b>1,305,985</b>	<b>1,440,720</b>
				Other financial liabilities at amortised cost RM'000
<u>Liabilities as per balance sheet</u>				
Borrowings				1,160,326
Trade and other payables				940,301
Amount due to related parties				25,879
Amount due to subsidiaries				1,488
<b>Total</b>				<b>2,127,994</b>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**32 FINANCIAL INSTRUMENTS (CONTINUED)**

**(a) Financial instruments by category (continued)**

<u>Company</u>	<u>Loan and receivables</u> RM'000
<u>31 December 2015</u>	
<u>Assets as per balance sheet</u>	
Trade and other receivables excluding prepayments and deposits	191,590
Other deposits excluding prepayments	472,459
Amount due from related parties	29,330
Amount due from a joint venture	55,570
Amount due from a subsidiary	26,150
Deposits, cash and bank balances	310,274
<b>Total</b>	<b>1,085,373</b>

	<u>Liabilities at fair value through the profit and loss</u> RM'000	<u>Derivatives used for hedging</u> RM'000	<u>Other financial liabilities at amortised cost</u> RM'000	<u>Total</u> RM'000
<u>Liabilities as per balance sheet</u>				
Borrowings	-	-	1,429,087	1,429,087
Trade and other payables	-	-	879,116	879,116
Amount due to related parties	-	-	45,668	45,668
Amount due to subsidiaries	-	-	2,263	2,263
Derivative financial instruments	7,585	107,630	-	115,215
<b>Total</b>	<b>7,585</b>	<b>107,630</b>	<b>2,356,134</b>	<b>2,471,349</b>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**32 FINANCIAL INSTRUMENTS (CONTINUED)**

**(b) Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
<u>Counterparties without external credit rating</u>				
Group 1	131	9,090	131	9,090
Group 2	13,853	73,876	14,254	73,876
Total trade receivables that are neither past due nor impaired	13,984	82,966	14,385	82,966

	<u>Note</u>	<u>Group</u>		<u>Company</u>	
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
		RM'000	RM'000	RM'000	RM'000
<u>Deposits, cash and bank balances</u>					
AAA to A-		411,802	286,561	410,186	286,046
BBB to BBB-		9,755	23,861	9,755	23,861
Cash in hand		421,557	310,422	419,941	309,907
		464	367	464	367
Total	23	422,021	310,789	420,405	310,274

Amounts due from related parties, a joint venture, a subsidiary and an associate

Group 1		-	4,965	-	4,965
Group 2		20,126	39,587	20,126	38,814
Total	22	20,126	44,552	20,126	43,779

Group 1 – New customers/related parties (Less than 6 months)

Group 2 – Existing customers/related parties (more than 6 months) with no defaults in the past.

All other receivables and deposits are substantially with existing counterparties with no history of default.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**33 SEGMENTAL INFORMATION**

Management has determined the operating segments based on reports that are reviewed and used to make strategic decisions by the Group's Chief Executive Officer ("CEO") who is identified as the chief operating decision maker.

The Group's CEO considers the business from a geographic perspective. With the termination of certain routes in the previous financial year, the operating segments have been reassessed and identified as North Asia, Australia and Middle East and West Asia.

The operating segments derive their revenues primarily from the Group's activities of provision of long haul air transportation services to these locations.

Consistent with information provided to the chief operating decision maker, revenue and certain direct costs (fuel, oil and maintenance, overhaul and user charges) were extracted on actual earned/incurred basis and disclosed accordingly in the operating segment results for the financial years ended 31 December 2016 and 31 December 2015 respectively. All other costs are allocated to the various segments based on "block hours". Block hours are defined as the time between the departure of an aircraft and its arrival at its destination, as recorded in the aircraft flight log.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**33 SEGMENTAL INFORMATION (CONTINUED)**

The Group's operations by geographical segments are as follows:

<u>2016</u>	<u>North Asia</u> RM'000	<u>Australia</u> RM'000	<u>West Asia and Middle East</u> RM'000	<u>Total</u> RM'000
External revenue				
- Scheduled flights	1,426,708	888,479	217,356	2,532,543
- Charter flights	2,658	-	252,062	254,720
- Freight services	58,832	55,489	20,592	134,913
- Ancillary revenue	318,760	246,849	77,106	642,715
- Management fees	830	604	75	1,509
- Aircraft operating lease income	242,074	176,642	21,418	440,134
	<u>2,049,862</u>	<u>1,368,063</u>	<u>588,609</u>	<u>4,006,534</u>
Operating expenses				
- Staff costs	(172,633)	(138,555)	(58,406)	(369,594)
- Aircraft fuel expenses	(568,737)	(419,067)	(128,306)	(1,116,110)
- Maintenance and overhaul	(305,749)	(222,537)	(91,045)	(619,331)
- User charges	(232,594)	(169,635)	(59,456)	(461,685)
- Aircraft operating lease expenses	(417,651)	(305,220)	(123,133)	(846,004)
- Other operating expenses	(131,461)	(97,799)	(22,076)	(251,336)
- Other income	31,089	21,830	3,081	56,000
	<u>252,126</u>	<u>37,080</u>	<u>109,268</u>	<u>398,474</u>
Gross profit				
	<u>252,126</u>	<u>37,080</u>	<u>109,268</u>	<u>398,474</u>
<b>EBITDAR</b>	<b>669,777</b>	<b>342,300</b>	<b>232,401</b>	<b>1,244,478</b>
EBITDA	252,126	37,080	109,268	398,474
Depreciation of property, plant and equipment	(55,972)	(40,872)	(16,687)	(113,531)
	<u>196,154</u>	<u>(3,792)</u>	<u>92,581</u>	<u>284,943</u>
EBIT				
Finance income	12,389	8,919	3,467	24,775
Finance costs	(24,337)	(17,516)	(8,021)	(49,874)
Foreign exchange losses	(18,121)	(13,347)	(4,021)	(35,489)
Other gains	17,067	12,603	6,068	35,738
	<u>183,152</u>	<u>(13,133)</u>	<u>90,074</u>	<u>260,093</u>
Profit before tax				
Taxation	(35,424)	3,237	(17,592)	(49,779)
	<u>147,728</u>	<u>(9,896)</u>	<u>72,482</u>	<u>210,314</u>
Net profit for the financial year				
	<u>147,728</u>	<u>(9,896)</u>	<u>72,482</u>	<u>210,314</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**33 SEGMENTAL INFORMATION (CONTINUED)**

The Group's operations by geographical segments are as follows: (continued)

<u>2015</u>	<u>North Asia</u> RM'000	<i>Australia</i> <u>Australia</u> RM'000	<u>West Asia and</u> <u>Middle East</u> RM'000	<u>Total</u> RM'000
External revenue				
- Scheduled flights	982,539	571,227	128,974	1,682,740
- Charter flights	-	-	421,662	421,662
- Fuel surcharge	42,955	55,144	762	98,861
- Freight and cargo	49,747	29,914	27,847	107,508
- Ancillary revenue	244,771	177,413	54,223	476,407
- Management fees	690	410	261	1,361
- Aircraft operating lease income	162,759	95,526	15,729	274,014
	<u>1,483,461</u>	<u>929,634</u>	<u>649,458</u>	<u>3,062,553</u>
Operating expenses				
- Staff costs	(160,254)	(95,062)	(60,505)	(315,821)
- Aircraft fuel expenses	(518,014)	(307,285)	(195,582)	(1,020,881)
- Maintenance, overhaul and user charges and other related expenses	(452,549)	(268,451)	(170,865)	(891,865)
- Aircraft operating lease expenses	(358,267)	(212,523)	(135,268)	(706,058)
- Other operating costs	(69,742)	(41,371)	(26,332)	(137,445)
- Other income	59,308	35,181	22,392	116,881
	<u>(16,057)</u>	<u>40,123</u>	<u>83,298</u>	<u>107,364</u>
Gross (loss)/profit	(16,057)	40,123	83,298	107,364
<b>EBITDAR</b>	<b>342,210</b>	<b>252,646</b>	<b>218,566</b>	<b>813,422</b>
EBITDA	(16,057)	40,123	83,298	107,364
Depreciation of property, plant and equipment	(73,478)	(43,587)	(27,742)	(144,807)
<b>EBIT</b>	<b>(89,535)</b>	<b>(3,464)</b>	<b>55,556</b>	<b>(37,443)</b>
Interest income	10,053	5,963	3,796	19,812
Interest expense and finance charges	(42,690)	(25,323)	(16,118)	(84,131)
Foreign exchange loss	(152,003)	(90,168)	(57,391)	(299,562)
Share of results of a joint venture	(19,062)	(11,307)	(7,197)	(37,566)
Other losses	(3,849)	(2,283)	(1,453)	(7,585)
	<u>(297,086)</u>	<u>(126,582)</u>	<u>(22,807)</u>	<u>(446,475)</u>
Loss before tax	(297,086)	(126,582)	(22,807)	(446,475)
Taxation	49,148	29,154	18,556	96,859
	<u>(247,938)</u>	<u>(97,428)</u>	<u>(4,251)</u>	<u>(349,616)</u>
<b>Net loss for the financial year</b>	<b>(247,938)</b>	<b>(97,428)</b>	<b>(4,251)</b>	<b>(349,616)</b>

**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**33 SEGMENTAL INFORMATION (CONTINUED)**

Note:

- EBITDAR - Earnings before interest, taxes, depreciation, amortisation and restructuring or rent costs  
 EBITDA - Earnings before interest, taxes, depreciation and amortisation  
 EBIT - Earnings before interest and taxes

All material non-current assets are based in Malaysia at the end of the current and previous financial year end.

The Group has not disclosed information relating to revenue from external customers which are attributed to the country of domicile and which are attributable to all foreign countries in total from which the Group derives revenue. Due to the nature of activities in the Group, the necessary information is not available and the cost to develop it would be excessive.

**34 UNCONSOLIDATED STRUCTURED ENTITIES**

The Company has set up Merah X entities, special purpose companies ("SPC") pursuant to aircraft related borrowings obtained from various financial institutions. Under the arrangement, the Company enters into an Aircraft Instalment Sale Agreement with the SPC, permitting the company to possess and operate each of the Airbus A330-300 aircraft financed under the facility.

The SPC are orphan trust companies in which the Company has no equity interest.

The details of the Merah X entities are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Purpose</u>
Merah X Dua Limited	Malaysia	Purchase of 3 Airbus A330-300 aircraft
Merah X Tiga Limited	Malaysia	Purchase of 2 Airbus A330-343 aircraft
Merah X Enam Limited	Malaysia	Purchase of 2 Airbus A330-300 aircraft

The SPC do not incur any losses or earn any income during the financial year ended 31 December 2016. The aircraft and the corresponding term loans and finance costs associated with the SPC have been recognised by the Group and Company upon the purchase of the aircraft.

The Group and the Company does not provide any financial support to the SPC or have any contractual obligation to make good the losses, if any.

**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**35 RECLASSIFICATION OF COMPARATIVES**

For the financial year ended 31 December 2016, the presentation of 'maintenance, overhaul, user charges and other related expenses' was changed to 'maintenance and overhaul' and 'user charges' to better reflect the operating performance of the Group.

Comparatives have been re-presented to align with the current financial year's presentation.



**AIRASIA X BERHAD**  
(Incorporated in Malaysia)

**SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA  
MALAYSIA SECURITIES LISTING REQUIREMENT**

The following analysis of realised and unrealised retained profits is prepared in accordance with the Guidance on Special Matter No.1 – Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants. This disclosure is based on the format prescribed by Bursa Malaysia Securities Berhad.

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	RM'000	RM'000	RM'000	RM'000
Total accumulated losses of AirAsia X Berhad and its subsidiaries:				
- Realised	(720,745)	(959,339)	(777,324)	(1,016,048)
- Unrealised	145,936	174,216	145,936	174,216
	<u>(574,809)</u>	<u>(785,123)</u>	<u>(631,388)</u>	<u>(841,832)</u>
Total share of accumulated losses from associated company:				
- Realised	(20,018)	(20,018)	-	-
Total share of accumulated losses from joint venture:				
- Realised	<u>(53,888)</u>	<u>(53,888)</u>	<u>-</u>	<u>-</u>
Total accumulated losses as per consolidated financial statements	<u>(648,715)</u>	<u>(859,029)</u>	<u>(631,388)</u>	<u>(841,832)</u>

The disclosure of realised and unrealised losses above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be applied for any other purposes.

Company No.

734161

K

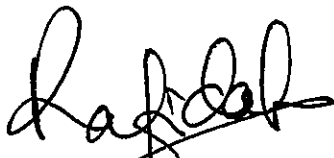
AIRASIA X BERHAD  
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO  
SECTION 251 (2) OF THE COMPANIES ACT, 2016

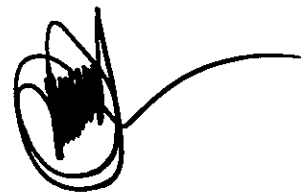
We, Tan Sri Rafidah Aziz and Datuk Kamarudin Bin Meranun, being two of the Directors of AirAsia X Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 102 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and financial performance of the Group and of the Company for the financial year ended 31 December 2016 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The supplementary information set out on page 103 have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 28 March 2017.



TAN SRI RAFIDAH AZIZ  
DIRECTOR



DATUK KAMARUDIN BIN MERANUN  
DIRECTOR

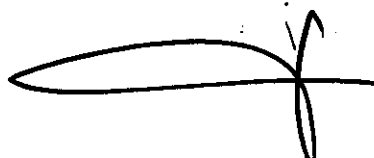
STATUTORY DECLARATION PURSUANT TO  
SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Cheok Huei Shian, the Officer primarily responsible for the financial management of AirAsia X Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 102 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

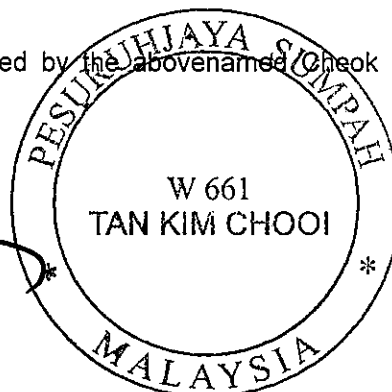


CHEOK HUEI SHIAN

Subscribed and solemnly declared by the abovesigned Cheok Huei Shian at Kuala Lumpur on 28 March 2017, before me.



COMMISSIONER FOR OATHS





INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA X BERHAD  
(Incorporated in Malaysia)  
(Company No. 734161-K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of AirAsia X Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Company, which comprise the balance sheets as at 31 December 2016 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 102.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.



**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBERS OF AIRASIA X BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 734161 K)

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Our audit approach**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Group and the Company. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key audit matters</b>	<b>How our audit addressed the key audit matters</b>
<p><b>Revenue recognition from scheduled flights</b></p> <p>Refer to Note 4 to the financial statements of the Group and Company for revenue and balance sheets for sales in advance.</p> <p>Revenue from the Group and Company for the financial year ended 31 December 2016 were primarily derived from scheduled flights. Passengers pay for their flights in advance and the amounts paid are recognised as 'sales in advance' on the balance sheets. The amounts are subsequently recognised as revenue when the flight has flown.</p>	<p>The flight reservation system is managed by a third party vendor in Australia. We tested the information technology general controls over the flight reservation system. Where information technology general controls over this system are managed by the vendor, these controls were tested by the vendor's external auditors. We obtained and evaluated the external auditors' report on the operating effectiveness of those controls. We tested the relevant controls over approval for changes in base fares and ancillary fares and approval for fare override in the flight reservation system.</p>



**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA X BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 734161 K)

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p><b>Revenue recognition from scheduled flights (continued)</b></p> <p>Accuracy of revenue recognised in the income statements is dependent on the fares paid by passengers, foreign exchange rates at the flight booking date to translate foreign currency transactions and changes to flights (flown, unflown or cancelled) recorded in the flight reservation system. The Company uses an integrated revenue accounting system which interfaces with the flight reservation system to generate journal entries to be posted into the general ledger. There is a high dependency on the flight reservation and revenue accounting systems for revenue recognition. The Company also uses a reconciliation system to reconcile flight booking data in the flight reservation system with payment data from financial institutions and online payment gateways. The reconciliation system generates exception report showing flight booking data that are not matched to payment data.</p> <p>Revenue from scheduled flights is a key audit matter due to the magnitude of the revenue and sales in advance balance, significant volume of transactions and the significant audit effort spent on this area.</p>	<p>We also tested the information technology general controls over the reconciliation system and the payment gateway system. We tested reliability of the exception reports generated by the reconciliation system by tracing samples of exceptions to the flight booking data and payment data. We also tested how management reviews these reports and resolves the exceptions via inquiries with management and tracing samples of exception items to supporting documents.</p> <p>We tested the sales in advance and revenue recognised by performing the following procedures:</p> <ol style="list-style-type: none"> <li>Agreed samples of flight bookings of which cash has been received from passengers, to the external payment reports from financial institutions and online payment gateways;</li> <li>Tested the foreign currency translation for samples of flight bookings made in foreign currencies;</li> <li>Agreed the revenue recognised during the financial year to each monthly journals generated by the revenue accounting system and posted by management;</li> <li>Agreed samples of revenue transactions to flight manifests of flown flights and to a third party flight tracking website; and</li> <li>Tested completeness of revenue and sales in advance by tracing samples of travel itineraries for flights during the year and flights subsequent to year end to revenue transactions and sales in advance balances respectively.</li> </ol>



**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA X BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 734161 K)

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Key audit matters (continued)**

<b>Key audit matters</b>	<b>How our audit addressed the key audit matters</b>
<p><b>Aircraft maintenance provision</b></p> <p>The Company operates aircraft which are owned or held under operating lease arrangement. For aircraft under operating lease, the Company is contractually committed to return the aircraft at the end of the lease term in a certain condition agreed with lessors. The lease agreements require the Company to pay deposits for maintenance of leased aircraft to the lessors. The Company also entered into an agreement with a maintenance service provider and prepays the cost of aircraft maintenance. Following this, management has estimated the aircraft maintenance provision at the end of each reporting period based on payments made to both service provider and the lessors.</p> <p>As at 31 December 2016, the aircraft maintenance provision of Company amounted to RM592 million. The provision is included within trade and other payables in the consolidated balance sheet (refer to Note 25 to the financial statements).</p> <p>We have identified aircraft maintenance provision as a key audit matter because of the magnitude of the provision and significant audit effort spent on this area.</p>	<p>Given that the provision is estimated based on payments to the maintenance service provider and lessors, we have performed the following procedures:</p> <ol style="list-style-type: none"> <li>Reviewed the lease agreements to confirm the Company's contractual obligation on the aircraft maintenance and payment of deposits to lessors;</li> <li>Traced all deposits and prepayments for aircraft maintenance during the year to invoices issued by lessors and maintenance service provider respectively; and</li> <li>Compared the provision estimated by management against the prepayments and deposits for aircraft maintenance at year end.</li> </ol>



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA X BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 734161 K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises Directors' Report and Statement on Risk Management & Internal Control, which we obtained prior to the date of this auditor's report, and the Management's Discussion and Analysis, Chairman's Statement, Statement on Corporate Governance, Audit Committee Report, Sustainability Report and other sections of the 2016 Annual Report, which are expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA X BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 734161 K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.





INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA X BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 734161 K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 16 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA X BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 734161 K)

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in page 103 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

NG GAN HOOI  
(No. 2914/04/17 (J))  
Chartered Accountant

Kuala Lumpur  
28 March 2017