PROSPECTUS

AIRASIA X BERHAD

(Company No. 734161-K)
(Incorporated in Malaysia under the Companies Act, 1965)

INITIAL PUBLIC OFFERING ("**IPO**" OR "**OFFERING**") OF UP TO 790,123,500 ORDINARY SHARES OF RM0.15 EACH IN AIRASIA X BERHAD ("**AIRASIA X**") ("**IPO SHARES**") IN CONJUNCTION WITH THE LISTING OF AND QUOTATION FOR THE ENTIRE ORDINARY SHARES OF RM0.15 EACH IN AIRASIA X ("**SHARES**") ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD COMPRISING AN OFFER FOR SALE OF UP TO 197,530,900 EXISTING SHARES ("**OFFER SHARES**") AND A PUBLIC ISSUE OF 592,592,600 NEW SHARES ("**ISSUE SHARES**") COMPRISING:

(I) INSTITUTIONAL OFFERING OF UP TO 538,011,800 SHARES COMPRISING:

- UP TO 197,530,900 OFFER SHARES AND 79,740,200 ISSUE SHARES TO MALAYSIAN INSTITUTIONAL AND SELECTED INVESTORS AND FOREIGN INSTITUTIONAL AND SELECTED INVESTORS AT THE INSTITUTIONAL PRICE TO BE DETERMINED BY WAY OF BOOKBUILDING ("**INSTITUTIONAL PRICE**"); AND
- 260,740,700 ISSUE SHARES TO BUMIPUTERA INSTITUTIONAL AND SELECTED INVESTORS APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY AT THE INSTITUTIONAL PRICE,

(II) RETAIL OFFERING OF 252,111,700 SHARES COMPRISING:

- 52,111,700 ISSUE SHARES MADE AVAILABLE TO THE ELIGIBLE PERSONS (AS DEFINED HEREIN);
- 50,000,000 ISSUE SHARES MADE AVAILABLE TO THE ELIGIBLE PASSENGERS (AS DEFINED HEREIN); AND
- 150,000,000 ISSUE SHARES MADE AVAILABLE TO THE MALAYSIAN PUBLIC,

AT THE RETAIL PRICE OF RM1.45 PER SHARE ("**RETAIL PRICE**"), PAYABLE IN FULL UPON APPLICATION AND SUBJECT TO REFUND OF THE DIFFERENCE, IN THE EVENT THAT THE FINAL RETAIL PRICE (AS DEFINED HEREIN) IS LESS THAN THE RETAIL PRICE. THE FINAL RETAIL PRICE WILL EQUAL THE INSTITUTIONAL PRICE, SUBJECT THAT IT WILL NOT EXCEED THE RETAIL PRICE.

THE INSTITUTIONAL OFFERING AND THE RETAIL OFFERING ARE SUBJECT TO THE CLAWBACK AND REALLOCATION PROVISIONS AND THE OVER-ALLOTMENT OPTION (AS DEFINED HEREIN).

PRINCIPAL ADVISER

CIMB

CIMB Investment Bank Berhad (Company No. 18417-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

JOINT GLOBAL COORDINATORS *(in alphabetical order)*

CIMB | CREDIT SUISSE | Maybank Investment Bank

JOINT BOOKRUNNERS *(in alphabetical order)*

Barclays Bank PLC (Company Reg No.: 1026167)
BNP Paribas, Singapore Branch (Company Reg No.: S71FC2142G)
CIMB Investment Bank Berhad (Company No.: 18417-M)
Citigroup Global Markets Limited (Company Reg No.: 01763297)
CLSA Singapore Pte Ltd (Company Reg No.: 198703750W)
Credit Suisse (Singapore) Limited (Company Reg No.: 197702363D)
Credit Suisse Securities (Malaysia) Sdn Bhd (Company No.: 499609-H)
Maybank Investment Bank Berhad (Company No.: 15938-H)
Morgan Stanley & Co. International plc (Company Reg No.: 02068222)
The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch (Company Reg No.: S16FC0010A)

JOINT MANAGING UNDERWRITERS AND JOINT UNDERWRITERS *(in alphabetical order)*

CIMB Investment Bank Berhad (Company No.: 18417-M)
Maybank Investment Bank Berhad (Company No.: 15938-H)

JOINT MANAGING UNDERWRITERS, JOINT UNDERWRITERS AND CO-LEAD MANAGERS *(in alphabetical order)*

Kenanga Investment Bank Berhad (Company No.: 15678-H)
RHB Investment Bank Berhad (Company No.: 19663-P)

JOINT UNDERWRITERS *(in alphabetical order)*

AFFIN Investment Bank Berhad (Company No.: 9999-V)
MIDF Amanah Investment Bank Berhad (Company No.: 23878-X)

YOU ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER. FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER, SEE "RISK FACTORS" IN SECTION 5 OF THIS PROSPECTUS.

THIS PROSPECTUS IS NOT TO BE DISTRIBUTED OUTSIDE MALAYSIA
LISTING SOUGHT: MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD
THIS PROSPECTUS IS DATED 10 JUNE 2013

The real estate properties depicted above do not belong to the AirAsia X Group.

The following pages (a) to (e) sets out a summarised overview of our principal activities, key milestones, our strengths, operational metrics, fleet plan, growth strategies, indicative timeline of our IPO and methods of application. They should be read in conjunction with the full text of the relevant sections of this Prospectus. Meanings of capitalised terms may be found in the "Definitions" and "Glossary of Technical Terms" sections of this Prospectus.

YOU ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER. FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER, SEE "RISK FACTORS" IN SECTION 5 OF THIS PROSPECTUS.

/ LOW-COST, LONG-HAUL AIRLINE COVERING THE ASIA PACIFIC REGION AND MIDDLE EAST

We are a low-cost, Long-haul airline, serving 14 destinations currently across Asia, Australia and the Middle East. We currently operate a fleet of 10 A330-300s for scheduled services, representing the largest LCC wide-body aircraft seat capacity in the Asia Pacific Region. Together with the broader AirAsia Group, we are working towards creating the world's first global, multi-hub LCC network, with complementary Short-haul and Long-haul networks.

Some of our key milestones / achievements:

2008	- Received 2008 Budgie World Low Cost Airline Awards for Best Newcomer - Awarded the CAPA New Airline of the Year Award 2008
2009	- Together with AirAsia Berhad, awarded "World's Best Low-Cost Airline" by Skytrax - Joint winners, with AirAsia Berhad, of the CAPA Airline of the Year Award 2009
2010	- Together with AirAsia Berhad, awarded the "World's Best Low-Cost Airline" by Skytrax for the second consecutive year
2011	- Ranked second as "Best Low-Cost Airline in Asia" by Skytrax, after AirAsia Berhad - Together with AirAsia Berhad, awarded the Air Cargo Industry Customer Care Award 2011 from Air Cargo Week
2012	- Awarded the Airbus Top Operational Excellence Award 2010-2011 for being the world's best A330-300 operator (small fleet category) - Ranked second as "Best Low-Cost Airline in Asia" by Skytrax, after AirAsia Berhad - Together with AirAsia Berhad, awarded the Air Cargo Industry Customer Care Award 2012 from Air Cargo Week - Together with AirAsia Berhad, awarded the "Rising Star Carrier of the Year" at Payload Asia Awards 2012 - Best New Route Launch (for Haneda) for the 2012 World Low Cost Airlines Congress Budgies Awards

/ OUR STRENGTHS *(See Section 7.2 of this Prospectus)*

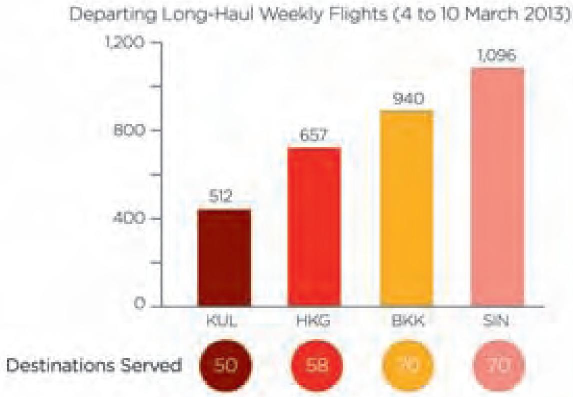
1. We have an early mover advantage in the low-cost, Long-haul segment

- Early movers in the LCC industry remain successful leaders in their respective markets, even after entry by other competing LCCs.
- We are an early mover and believe we have a similar opportunity to be a market leader in the global low-cost, Long-haul segment by exploiting a significantly underserved segment of price-sensitive air travellers on Long-haul routes.

2. We operate in some of the largest and fastest growing aviation markets

- Our positioning within the Asia Pacific Region *(forecasted to be robust and potentially surpassing North America as the world's largest aviation market, Source: S-A-P)* allows us to benefit from this growth and continue to be a large and attractive feeder market for our Long-haul routes.
- Malaysia is currently underserved from a Long-haul standpoint relative to other major Asian airports.
- Malaysia was the only Southeast Asian country in the global top 10 for international tourist arrivals in 2011. *(Source: S-A-P)*
- In 2012, there were 25.0 million tourist arrivals in Malaysia. *(Source: S-A-P)*

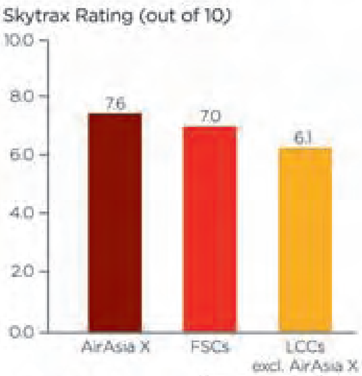
Malaysia is Poised For Growth in Low-Cost, Long-Haul Travel



(Source: S-A-P)

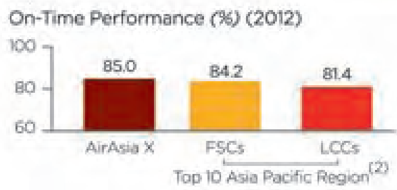
3. We have developed a high-quality operating model and product

High Customer Satisfaction Ratings



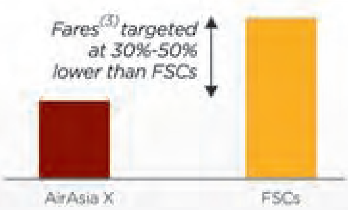
(Source: S-A-P)

Punctual and Reliable



(Source: S-A-P)

Attractive Fares



Operational Reliability

- Technical dispatch reliability rate of 99.5% (2011) and 99.4% (2012)
- Achieved best reliability rate among all A330-300 operators worldwide in small fleet category (2010-2011)

Notes:
(1) Based on major FSCs/LCCs in the Asia Pacific Region that S-A-P believes provide a relevant basis for comparison and have available data
(2) Based on the top 10 (ranked by operating revenue) FSCs/LCCs in the Asia Pacific Region which reported financial and operating performance, that have available data for the latest 12 month periods
(3) Inclusive of ancillary charges for seat selection, 20kg baggage, meal and airport taxes

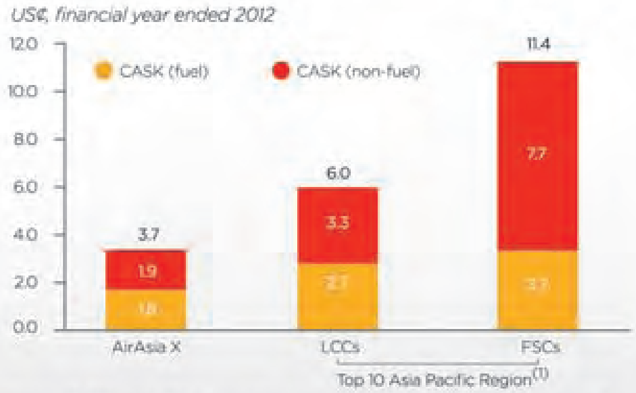
- We believe the above strong operating attributes, together with our convenient and warm cabin services and attractive fares, have enabled us to garner high customer satisfaction ratings.

4. We benefit from being part of the AirAsia Group

- The AirAsia brand enjoys global visibility and recognition.
- Ability to leverage on AirAsia Group's large existing customer base and its broad (81 destinations around Asia from 16 hubs) and deep (2,864 return flights weekly) Short-haul LCC network.
- We mutually benefit from the interconnectivity among the AirAsia Group carriers as it provides access to a larger market for potential passengers.
- Access to over 6.9 million registered members, with www.airasia.com being a top travel-related web site in Asia *(with over 9 million average monthly unique visitors and over 182 million average monthly page views in 2012 based on tracking by Google)*, and active participation in social media.
- Increased bargaining power from collective aircraft and component purchases, leasing and financing contracts and fuel purchases.

5. We believe that we have the lowest unit operating cost base of any airline in the world[1]

- High ASKs per Aircraft due to High Aircraft Utilisation and Seat Density
- Modern, Fuel Efficient and Focused Aircraft Type Fleet
- High Labour Productivity from a Non-Unionised Workforce
- Streamlined Airport Operations
- Lower Marketing and Sales Costs



(1) *Lowest CASK and CASK (excluding fuel) based on comparisons performed against the top 10 FSCs and LCCs by operating revenue based in the Asia Pacific Region and the averages of the top 10 FSCs and LCCs by operating revenue based in Europe and North America, details as set out in the 'Key Financial and Operating Performance' table in Section 2.8 of S-A-P's report in Section 8 of this Prospectus*

6. We have one of the highest ancillary revenue per passenger levels

Ancillary Products

Seat Fees

- Pick-A-Seat
- Upgrade Travel Option
- Empty Seat Option

In-flight Sales

- Meal
- Entertainment
- Souvenirs & Duty Free Products

Convenience Fees
(now known as Processing Fee)

Change Fees

"Fly-Thru" Fees

Baggage Fees

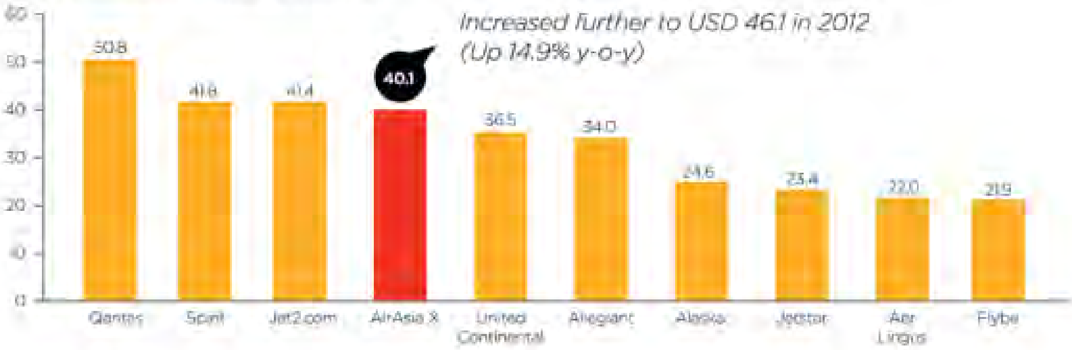
Travel Insurance

Red Carpet Service

Ranking in Ancillary Revenue Generation*

** Based on comparison against global airlines that report ancillary income (Source: S-A-P)*

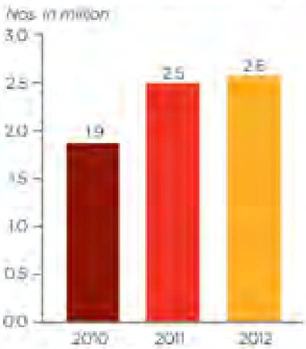
Ancillary Revenue Per Passenger 2011 (USD)



Ancillary Revenue Per Passenger 2010 (USD)

/ KEY OPERATIONAL METRICS *(See Section 12.3 of this Prospectus)*

Passengers

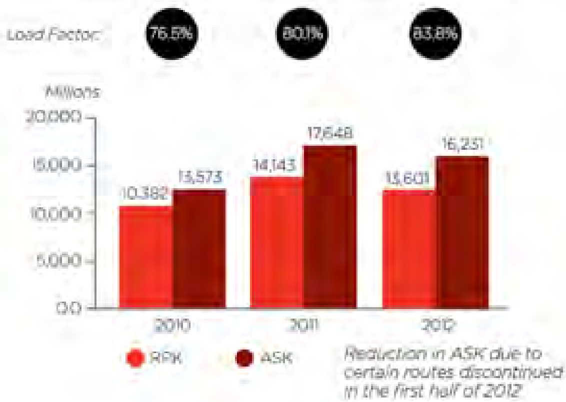


*CAGR of **76.8%** from first full year of operation to 2012*

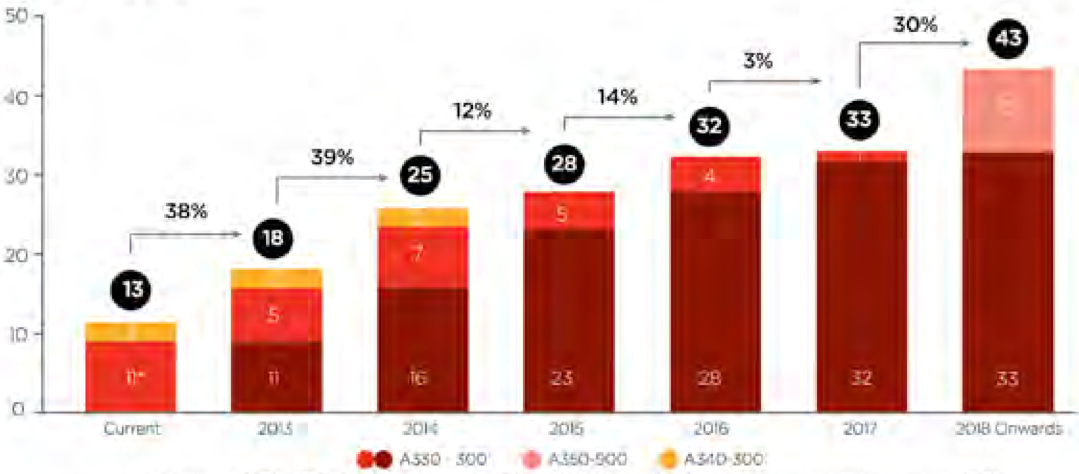
Revenue^

*CAGR of **70.9%** from first full year of operation to 2012*

RPK and ASK and Load Factor



/ FLEET PLAN *(See Section 7.5 of this Prospectus)*



*Includes an A330 - 300 which was delivered on 3 May 2013 and scheduled only to commence operations in July 2013.

/ GROWTH STRATEGIES *(See Section 7.3 of this Prospectus)*

- Expand our passenger base by growing route network and increasing number of hubs
- Grow our fleet and expand our route mix
- Strengthen the AirAsia brand and maintain high customer satisfaction
- Maximise passenger revenue and develop ancillary revenue streams
- Continue to implement initiatives to strengthen our operations quality and cost structure

/ INDICATIVE TIMETABLE *(See Section 4.2 of this Prospectus)*

10:00 a.m. 10 June 2013	Issuance of Prospectus/Opening of Retail Offering
5:00 p.m. 19 June 2013	Closing of Retail Offering
10 July 2013	Listing

/ METHODS OF APPLICATION *(See Section 16.2 of this Prospectus)*

Type of Application Form	Category of investors
WHITE Application Form or Electronic Share Application or Internet Share Application	Malaysian public (for individuals)
WHITE Application Form only	Malaysian public (for non-individuals e.g. corporations, institutions, etc.)
PINK Application Form only	Eligible directors; eligible employees of our Group; and eligible persons who have contributed to the success of our Group
BLUE Application Form only	Eligible Passengers (for individuals)

Our Directors, the Promoters and the Selling Shareholders have reviewed and approved this Prospectus and they collectively and individually accept full responsibility for the accuracy of the information in this Prospectus. They confirm, after making all reasonable enquiries that, to the best of their knowledge and belief, there are no false or misleading statements or other facts which, if omitted, would make any statement in this Prospectus false or misleading.

CIMB Investment Bank Berhad ("**CIMB**"), as the Principal Adviser to our IPO, a Joint Managing Underwriter and Joint Underwriter for the Retail Offering, a Joint Global Coordinator and a Joint Bookrunner for the Institutional Offering in relation to our IPO, acknowledges that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts in connection with our IPO.

It is to be noted that the role of Credit Suisse (Singapore) Limited in our IPO is limited to being a Joint Global Coordinator and a Joint Bookrunner in respect of the Institutional Offering outside Malaysia only. Credit Suisse (Singapore) Limited does not have any role in, and disclaims any responsibility for, the Institutional Offering and Retail Offering in Malaysia.

It is to be noted that the role of Maybank Investment Bank Berhad in our IPO is limited to being a Joint Global Coordinator and a Joint Bookrunner in respect of the Institutional Offering and a Joint Managing Underwriter and Joint Underwriter in respect of the Retail Offering.

It is to be noted that the roles of Barclays Bank PLC, BNP Paribas, Singapore Branch, Citigroup Global Markets Limited, CLSA Singapore Pte Ltd, Morgan Stanley & Co. International plc and The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch in our IPO are limited to being Joint Bookrunners in respect of the Institutional Offering outside Malaysia only. Barclays Bank PLC, BNP Paribas, Singapore Branch, Citigroup Global Markets Limited, CLSA Singapore Pte Ltd, Morgan Stanley & Co. International plc and The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch do not have any role in, and disclaim any responsibility for, the Institutional Offering and Retail Offering in Malaysia.

It is to be noted that the role of Credit Suisse Securities (Malaysia) Sdn Bhd in our IPO is limited to being a Joint Bookrunner in respect of the Institutional Offering in Malaysia only. Credit Suisse Securities (Malaysia) Sdn Bhd does not have a role in, and disclaims any responsibility for, the Institutional Offering outside Malaysia and the Retail Offering in Malaysia.

It is to be noted that the roles of Kenanga Investment Bank Berhad and RHB Investment Bank Berhad in our IPO are limited to being Joint Managing Underwriters and Joint Underwriters in respect of the Retail Offering and Co-Lead Managers in respect of the Institutional Offering in Malaysia.

It is to be noted that the roles of AFFIN Investment Bank Berhad and MIDF Amanah Investment Bank Berhad are limited to being Joint Underwriters in respect of the Retail Offering.

The Securities Commission Malaysia ("**SC**") has approved this issue, offer or invitation for the IPO and a copy of this Prospectus has been registered with the SC. The approval and registration of this Prospectus should not be taken to indicate that the SC recommends the offering or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Prospectus. The SC has not, in any way, considered the merits of our Shares being offered for investment.

The SC is not liable for any non-disclosure in this Prospectus by us. The SC also takes no responsibility for the contents of this Prospectus and makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss that you may suffer as a result of your reliance on the whole or any part of the contents of this Prospectus.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE IPO AND AN INVESTMENT IN US. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD IMMEDIATELY CONSULT YOUR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS BEFORE APPLYING FOR OUR SHARES.

Our Company has obtained the approval from Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for our Shares. Our admission to the official list of Bursa Securities is not to be taken as an indication of the merits of our IPO, our Company or of our Shares.

You are advised to note that recourse for false or misleading statements or acts made in connection with this Prospectus is directly available through Sections 248, 249 and 357 of the Capital Markets and Services Act, 2007 ("**CMSA**").

This Prospectus and the accompanying application forms have also been lodged with the Registrar of Companies Malaysia who takes no responsibility for its contents. This Prospectus can be viewed or downloaded from Bursa Securities' website at www.bursamalaysia.com.

Securities listed on Bursa Securities are offered to the public premised on full and accurate disclosure of all material information concerning our IPO for which the persons set out in Section 236 of the CMSA, e.g. Directors and advisers, are responsible.

Our Shares are classified as Shariah-compliant by the Shariah Advisory Council of the SC based on our latest audited financial information for the financial year ended 31 December 2012 and this classification remains valid until the next Shariah compliance review is undertaken by the Shariah Advisory Council of the SC. Updates on the classification will be released in the updated list of Shariah-compliant securities on the last Friday of the month of May and November of each year.

You should not take the agreement by the Joint Managing Underwriters and the Joint Underwriters to underwrite our Shares under the Retail Offering as an indication of the merits of our Shares.

This Prospectus has been prepared in the context of an IPO under the laws of Malaysia. It does not comply with the laws of any jurisdiction other than Malaysia, and has not been and will not be lodged, registered or approved pursuant to or under any applicable securities or equivalent legislation or by any regulatory authority of any jurisdiction other than Malaysia.

This Prospectus is published solely in connection with our IPO. Our Shares being offered in our IPO are offered solely on the basis of the information contained and representations made in this Prospectus. Our Company, the Promoters, the Selling Shareholders, the Principal Adviser, the Joint Global Coordinators, the Joint Bookrunners, the Joint Managing Underwriters, the Joint Underwriters and Co-Lead Managers have not authorised anyone to provide any information or to make any representation not contained in this document, and any information or representation not contained in this document must not be relied upon as having been authorised by our Company, the Promoters, the Selling Shareholders, the Principal Adviser, the Joint Global Coordinators, the Joint Bookrunners, the Joint Managing Underwriters, the Joint Underwriters, Co-Lead Managers, any of their respective Directors, or any other person involved in our IPO.

The distribution of this Prospectus and our IPO are subject to the laws of Malaysia. This Prospectus will not be distributed outside Malaysia except insofar as it is a part of the offering circular distributed to foreign institutional investors outside Malaysia in connection with our IPO. Our Company, the Promoters, the Selling Shareholders, the Principal Adviser, the Joint Global Coordinators, the Joint Bookrunners, the Joint Managing Underwriters, the Joint Underwriters and Co-Lead Managers have not authorised and take no responsibility for the distribution of this Prospectus outside Malaysia except insofar as it is a part of the offering circular distributed to foreign and selected institutional investors outside Malaysia in connection with our IPO. No action has been taken to permit a public offering of our Shares in any jurisdiction other than Malaysia. Accordingly, this Prospectus may not be used for the purpose of and does not constitute an offer for subscription or purchase or invitation to subscribe for or purchase, any IPO Shares in any jurisdiction in which such offer or invitation in any jurisdiction or in any circumstances in which such an offer is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation. The distribution of this Prospectus and the sale of our Shares in certain other jurisdictions may be restricted by law. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions.

Our Shares have not been and will not be registered under the United States' Securities Act of 1933 (the "**US Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States. Our Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the US Securities Act. Our Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of our Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

ELECTRONIC PROSPECTUS

The contents of the Electronic Prospectus and the copy of this Prospectus registered with the SC are the same. You may obtain a copy of the Electronic Prospectus, from the website of CIMB at www.eipocimb.com. In addition, you may also obtain a copy of the Electronic Prospectus from the website of CIMB Bank Berhad at www.cimbclicks.com.my, Malayan Banking Berhad at www.maybank2u.com.my, Affin Bank Berhad at www.affinOnline.com, RHB Bank Berhad at www.rhb.com.my and Public Bank Berhad at www.pbebank.com.

The internet is not a fully secure medium. Your Internet Share Application (as defined herein) may be subject to risks in data transmission, computer security threats such as viruses, hackers and crackers, faults with computer software and other events beyond the control of the Internet Participating Financial Institution (as defined herein). These risks cannot be borne by the Internet Participating Financial Institution. If you doubt the validity or integrity of an Electronic Prospectus, you should immediately request from us, the Principal Adviser or the Issuing House (as defined herein), a paper/printed copy of this Prospectus. If there is any discrepancy between the contents of the Electronic Prospectus and the paper/printed copy of this Prospectus, the contents of the paper/printed copy of this Prospectus which are identical to the copy of the Prospectus registered with the SC shall prevail.

In relation to any reference in this Prospectus to third party internet sites ("**Third Party Internet Sites**"), whether by way of hyperlinks or by way of description of the Third Party Internet Sites, you acknowledge and agree that:

(i) we do not endorse and are not affiliated in any way to the Third Party Internet Sites. Accordingly, we are not responsible for the availability of or the content or any data, files or other material provided on the Third Party Internet Sites. You bear all risks associated with the access to or use of the Third Party Internet Sites;

(ii) we are not responsible for the quality of products or services in the Third Party Internet Sites, particularly in fulfilling any of the terms of any of your agreements with the Third Party Internet Sites. We are also not responsible for any loss or damage or cost that you may suffer or incur in connection with or as a result of dealing with the Third Party Internet Sites or the use of or reliance on any data, file or other material provided by such parties; and

(iii) any data, files or other material downloaded from the Third Party Internet Sites is done at your own discretion and risk. We are not responsible, liable or under obligation for any damage to your computer system or loss of data resulting from the downloading of any such data, information, files or other material.

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Where an Electronic Prospectus is hosted on the website of the Internet Participating Financial Institution, you are advised that:

(I) the Internet Participating Financial Institution is only liable in respect of the integrity of the contents of an Electronic Prospectus, to the extent of the content of the Electronic Prospectus on the web server of the Internet Participating Financial Institution which may be viewed via your web browser or other relevant software. The Internet Participating Financial Institution is not responsible for the integrity of the contents of an Electronic Prospectus which has been obtained from the web server of the Internet Participating Financial Institution and subsequently communicated or disseminated in any manner to you or other parties; and

(II) while all reasonable measures have been taken to ensure the accuracy and reliability of the information provided in an Electronic Prospectus, the accuracy and reliability of an Electronic Prospectus cannot be guaranteed because the internet is not a fully secure medium.

The Internet Participating Financial Institution is not liable (whether in tort or contract or otherwise) for any loss, damage or costs, you or any other person may suffer or incur due to, as a consequence of or in connection with any inaccuracies, changes, alterations, deletions or omissions in respect of the information provided in an Electronic Prospectus which may arise in connection with or as a result of any fault with web browsers or other relevant software, any fault on your or any third party's personal computer, operating system or other software, viruses or other security threats, unauthorised access to information or systems in relation to the website of the Internet Participating Financial Institution, and/or problems occurring during data transmission which may result in inaccurate or incomplete copies of information being downloaded or displayed on your personal computer.

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INDICATIVE TIMETABLE

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

Events	Date
Opening of Institutional Offering	10 June 2013
Issuance of Prospectus/Opening of Retail Offering	10:00 a.m., 10 June 2013
Closing of Retail Offering	5:00 p.m., 19 June 2013
Closing of Institutional Offering	24 June 2013
Price Determination Date	24 June 2013
Balloting of applications for the Issue Shares pursuant to the Retail Offering	24 June 2013
Allotment/Transfer of the IPO Shares to successful applicants	9 July 2013
Listing	10 July 2013

The Institutional Offering will close on the date stated above or such other date as our Directors, the Selling Shareholders and the Joint Global Coordinators may decide in their absolute discretion. The applications for the Retail Offering will close at the time and date stated above subject that our Directors and the Joint Managing Underwriters may decide in their absolute discretion to extend the closing time and date for applications to any later time(s) and/or date(s).

In the event that the closing date and/or time of either the Institutional Offering or the Retail Offering is extended, the Price Determination Date and dates for the balloting and allotment of the Issue Shares and the transfer of the Offer Shares and our Listing will be extended accordingly. We will announce any extension in a widely circulated Bahasa Malaysia and English language daily newspaper within Malaysia.

All defined terms used in this Prospectus are defined under "Presentation of Financial and Other Information", "Definitions" and "Glossary of Technical Terms" commencing on pages x, xiv, and xxi respectively.

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TABLE OF CONTENTS (cont'd)

TABLE OF CONTENTS (cont'd)

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to "**our Company**" and "**AirAsia X**" in this Prospectus are to AirAsia X Berhad. All references to "**AirAsia X Group**" and "**our Group**" in this Prospectus are to our Company, our subsidiaries and our associated company, as a whole, and reference to "**we**", "**us**" and "**our**" are to our Company and our subsidiaries, save where the context otherwise requires. Unless the context otherwise requires, references to "**Management**" are to our Directors and key management personnel as at the date of this Prospectus, and statements as to our beliefs, expectations, estimates and opinions are those of our Management.

In this Prospectus, reference to the "**Government**" is to the Government of Malaysia; references to "**Ringgit**", "**Malaysian Ringgit**", "**RM**" and "**sen**" are to the lawful currency of Malaysia. Any discrepancies in the tables between the amounts listed and the totals in this Prospectus are due to rounding. Certain acronyms, technical terms and other abbreviations used are defined in "**Definitions**" and "**Glossary of Technical Terms**" appearing after this section. Words denoting the singular only shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to persons shall include companies and corporations.

Any reference to any provisions of the statutes, rules, regulations, enactments or rules of stock exchange shall (where the context admits), be construed as a reference to provisions of such statutes, rules, regulations, enactments or rules of stock exchange (as the case may be) as modified by any written law or (if applicable) amendments or re-enactment to the statutes, rules, regulation, enactment or rules of stock exchange for the time being in force.

All references to dates and times are references to dates and times in Malaysia.

This Prospectus includes statistical data provided by us and various third parties and cites third-party projections regarding growth and performance of the industries in which we operate. This data is taken or derived from information published by industry sources and from our internal data. In each such case, the source is stated in this Prospectus, provided that where no source is stated, it can be assumed that the information originates from us. In particular, certain information in this Prospectus is extracted or derived from report(s) prepared by S-A-P for inclusion in this Prospectus. We have appointed S-A-P to provide an independent market and industry review. In compiling their data for the review, S-A-P had relied on industry sources, published materials, their own private databanks and direct contacts within the industries. The information on the industries as contained in this Prospectus and the other statistical data and projections cited in this Prospectus is intended to help prospective investors understand the major trends in the industries in which we operate. However, we, the Selling Shareholders, the Promoters, the Principal Adviser, the Joint Global Coordinators, the Joint Bookrunners, the Joint Managing Underwriters, the Joint Underwriters, the Co-Lead Managers and their respective advisers have not independently verified these figures. Neither our Company nor the Selling Shareholders, the Promoters, the Principal Adviser, the Joint Global Coordinators, the Joint Bookrunners, the Joint Managing Underwriters, the Joint Underwriters, the Co-Lead Managers and their respective advisers make any representation as to the correctness, accuracy or completeness of such data and accordingly, prospective investors should not place undue reliance on the statistical data cited in this Prospectus. Further, third-party projections cited in this Prospectus are subject to significant uncertainties that could cause actual data to differ materially from the projected figures. You should not place undue reliance on the third-party projections cited in this Prospectus.

References to the latest practicable date or "LPD" in this Prospectus are to 25 April 2013, which is the latest practicable date for certain information to be obtained and disclosed in this Prospectus prior to the registration of this Prospectus with the SC.

EBITDA, EBITDAR, as well as the related ratios presented in this Prospectus are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with the FRS and MFRS. EBITDA and EBITDAR are not measurements of financial performance or liquidity under the FRS or MFRS and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with the FRS or MFRS or as alternatives to cash flows from operating activities or as measures of liquidity. In addition, EBITDA and EBITDAR are not standardised terms, hence a direct comparison between companies using such terms may not be possible.

We believe that EBITDA and EBITDAR facilitate comparisons of operating performance from period to period and company to company by eliminating potential differences caused by the variations in capital structures (affecting interest expense and finance costs), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the age and booked depreciation and amortisation of assets (affecting relative depreciation and amortisation expenses) and in addition the rental expenses for aircraft in the case of EBITDAR. EBITDA and EBITDAR have been presented because we believe that they are frequently used by securities analysts, investors and other interested parties in evaluating similar companies, many of whom present such non-FRS and non-MFRS financial measures when reporting their results. Nevertheless, EBITDA and EBITDAR have limitations as analytical tools, and potential investors should not consider them in isolation from, or as a substitute for analysis of our financial condition or results of operations, as reported under the FRS and MFRS. Due to these limitations, EBITDA or EBITDAR should not be considered as measures of discretionary cash available to invest in the growth of our business.

The information on our websites or any website directly or indirectly linked to such websites does not form part of this Prospectus and you should not rely on it.

Foreign exchange rates

Unless otherwise stated and save for Section 8 of this Prospectus, the translation from USD to RM which is applied throughout this Prospectus for the years ended 31 December 2010, 2011 and 2012, and the 3 months ended 31 March 2012 and 2013 is based on the following exchange rates:

	Year ended 31 December			3 months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
For Income Statements, Statements of Comprehensive Income and Operating Data (where appropriate)					
USD[(1)]	RM3.22	RM3.06	RM3.09	RM3.06	RM3.08
For Balance Sheets					
USD[(2)]	RM3.09	RM3.17	RM3.06	RM3.07	RM3.09

In addition to the above, unless otherwise stated, the translation from USD to RM of USD1.00 to RM3.04 as at the LPD[(3)] is applied throughout this Prospectus.

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(1) *Based on the average daily rates for the relevant financial years/periods sourced from Bank Negara Malaysia*

(2) *Based on the daily rates on the last business day of the respective financial years/periods sourced from Bank Negara Malaysia*

(3) *Based on the rate as at the LPD sourced from Bank Negara Malaysia*

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, prospects, plans and objectives of our Company for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future result, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Forward-looking statements can be identified by the use of forward-looking terminology such as the words "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "foresee", "forecast" or similar expressions and include all statements that are not historical facts. Such forward-looking statements include, without limitation, statements relating to:

- our future overall business development, operations and financial performance, including earnings, cash flows and liquidity;
- potential growth opportunities;
- our business strategies, trends, competitive position and effects of competition;
- plans, objectives and strategies of our Company for future operations;
- the general industry environment, including the demand and supply for budget air travel; and
- the regulatory environment and the effects of future regulation.

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

- fluctuations in demand and supply for air travel;
- terrorist attacks, natural disasters, epidemics and social and political unrest in the regions in which we operate;
- the general economic conditions in the markets in which we operate;
- our ability to compete with other airlines in a highly competitive industry;
- our ability to obtain regulatory approvals and licences to operate in our existing markets and to gain access to new markets;
- our ability to successfully implement our growth strategy;
- increases in fuel prices or limitations on fuel supply;
- increases in fleet maintenance expenses;
- increases in the cost of airport facilities and services, or any restrictions on access to such airport facilities and services;
- our ability to attract and retain personnel, including our senior management team and highly-skilled talent, on a cost-effective basis;
- delays that may cause reductions to our high daily aircraft utilisation rate;

- problems that may be associated with the reliability or availability of the A330-300 and the engines we use;
- any accident or sufficiently disruptive or dangerous incident involving any of our aircraft or any AirAsia Group aircraft;
- our reliance on the AirAsia brand and on our association with the AirAsia Group;
- our ability to raise new equity and obtain financing for the expansion of our aircraft fleet;
- changes or other increases in governmental regulation, including environmental regulation, and the costs associated therewith;
- movements of foreign exchange rates;
- the cost and availability of adequate insurance coverage;
- fixed and contingent obligations and commitments; and
- other factors beyond our control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed elsewhere in Section 5 of this Prospectus on "Risk Factors" and Section 12.4 of this Prospectus on "Factors Affecting our Results of Operations". We cannot give any assurance that the forward-looking statements made in this Prospectus will be realised. Such forward-looking statements are made only as at the LPD.

Save as required by Section 238(1) of the CMSA and Paragraph 1.02 of the Prospectus Guidelines (Supplementary Prospectus), we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this Prospectus to reflect any changes in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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DEFINITIONS

The following terms in this document bear the same meanings as set out below unless the term is defined otherwise or the context requires otherwise:

ADA	:	Authorised Depository Agent
AFFIN	:	AFFIN Investment Bank Berhad
AirAsia Group	:	AirAsia Berhad, its subsidiaries, joint venture companies and associate companies and other companies using the "AirAsia" brand name, taken as a whole (including AirAsia X, where applicable)
AirAsia Insure	:	A travel protection plan which provides coverage for losses arising from, amongst others, personal accident, medical and evacuation, emergency medical evacuation and mortal remains repatriation, travel inconvenience such as flight cancellation or loss or damage to baggage and personal effects, flight delay and on-time guarantee
AirAsia Services Agreement	:	The AirAsia Services Agreement between AirAsia Berhad and our Company dated 31 October 2007, as amended, varied and supplemented
AirAsia X or Company	:	AirAsia X Berhad
AirAsia X Group or Group	:	AirAsia X, its subsidiaries and associated company
Airbus	:	Airbus S.A.S.
AOC	:	Air Operator's Certificate
Application Form(s)	:	Application form(s) for the application of the Issue Shares under the Retail Offering accompanying this Prospectus
Articles	:	Articles of Association of our Company
ASEAN	:	Association of Southeast Asian Nations, comprising Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam
ASL	:	Air Service Licence
ATM	:	Automated teller machine
Barclays	:	Barclays Bank PLC
BIG Member(s)	:	Member(s) of BIG, a loyalty programme that AirAsia X is a participant of, where members can earn loyalty points through the purchase of flights from the AirAsia Group or goods and services from selected partners. Such loyalty points can be redeemed for AirAsia Group flights, hotel stays, vouchers and merchandise, amongst others
BNP Paribas	:	BNP Paribas, Singapore Branch
Board or Board of Directors	:	Board of Directors of our Company

Brand Licence Agreement	:	The Brand Licence Agreement between AirAsia Berhad and our Company dated 20 July 2007, as amended and renewed by the the Brand Licence Amendment and Renewal Agreement
Brand Licence Amendment and Renewal Agreement	:	The Brand Licence Amendment and Renewal Agreement between AirAsia Berhad and our Company dated 21 July 2012
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd
Bursa Securities	:	Bursa Malaysia Securities Berhad
By-Laws	:	By-laws governing our ESOS
CAGR	:	Compound annual growth rate
CDS	:	Central Depository System
CIMB	:	CIMB Investment Bank Berhad
Citi	:	Citigroup Global Markets Limited
CLSA	:	CLSA Singapore Pte Ltd
CMSA	:	Capital Markets and Services Act, 2007, as amended from time to time and any re-enactment thereof
Co-Lead Managers	:	Collectively, KIBB and RHB
Companies Act	:	Companies Act, 1965, as amended from time to time and any re-enactment thereof
Credit Suisse	:	Credit Suisse (Singapore) Limited
Credit Suisse Malaysia	:	Credit Suisse Securities (Malaysia) Sdn Bhd
DCA	:	Department of Civil Aviation of Malaysia
Director(s)	:	Member(s) of the Board of Directors
EBITDA	:	Earnings before finance cost, taxation, depreciation and amortisation
EBITDAR	:	Earnings before finance cost, taxation, depreciation, amortisation and aircraft rental expenses
Electronic Prospectus	:	A copy of this Prospectus that is issued, circulated or disseminated via the Internet, and/or an electronic storage medium, including but not limited to CD-ROMs or floppy disks
Electronic Share Application	:	Application for the Issue Shares made available to the Malaysian public under the Retail Offering through a Participating Financial Institution's ATM
Eligible Directors	:	Director(s) of any company in our Group (which is not a dormant company) who meet(s) the criteria of eligibility for participation in our ESOS in accordance with By-Law 4

Eligible Employees	:	Employee(s) of any company in our Group (which is not a dormant company) who meet(s) the criteria of eligibility for participation in our ESOS in accordance with By-Law 4
Eligible Passengers	:	Paying passengers who (i) have flown on AirAsia X flights within 24 months prior to the date of this Prospectus; (ii) are BIG Members; and (iii) are deemed to be Malaysian public, who have been allocated with the Issue Shares in the manner set out in Section 4.3.5 of this Prospectus
Eligible Persons	:	Collectively, (i) the eligible directors; (ii) the eligible employees; and (iii) the eligible persons who have contributed to the success of our Group, who have been allocated with the Issue Shares in the manner as set out in Section 4.3.4 of this Prospectus
Equity Guidelines	:	Equity Guidelines issued by the SC, as amended from time to time
ESOS	:	Employees' share option scheme
ESOS Committee	:	A committee comprising such person(s) as may be appointed by the Board to administer our ESOS
ESOS Options	:	The right of an Eligible Director or Eligible Employee who has accepted an offer in the manner indicated in By-Law 8 to subscribe for new Shares pursuant to the contract constituted by the acceptance of an offer
Final Retail Price	:	Final price per Issue Share equivalent to the Institutional Price, subject that it will not exceed the Retail Price
FRS	:	Financial Reporting Standards
FSC	:	Full-service carrier
GDP	:	Gross domestic product
HSBC	:	The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch
Inaugural Benefit	:	The inaugural benefit of the Shareholders' Benefit Programme in the form of zero fare return air tickets to any AirAsia X destinations originating from Malaysia, the eligibility of which is subject to and in accordance with the terms and conditions set out in Annexure C of this Prospectus
Institutional Offering	:	Offering of up to 538,011,800 Shares comprising: (i) up to 197,530,900 Offer Shares and 79,740,200 Issue Shares to Malaysian institutional and selected investors and foreign institutional and selected investors at the Institutional Price; and (ii) 260,740,700 Issue Shares to Bumiputera institutional and selected investors approved by the MITI at the Institutional Price; subject to clawback and reallocation provisions and the Over-allotment Option

DEFINITIONS (cont'd)

Institutional Price	:	Price per IPO Share to be paid by investors pursuant to the Institutional Offering which will be determined on the Price Determination Date by way of bookbuilding
Internet Participating Financial Institution	:	The participating financial institution for the Internet Share Application as set out in Section 16 of this Prospectus
Internet Share Application	:	Application for the Issue Shares made available to the Malaysian public under the Retail Offering through an Internet Participating Financial Institution
IPO	:	Initial public offering of up to 790,123,500 IPO Shares comprising the Offer for Sale and the Public Issue
IPO Shares	:	Collectively, the Offer Shares and the Issue Shares
Issue Shares	:	New Shares to be issued pursuant to the Public Issue
Issuing House	:	Malaysian Issuing House Sdn Bhd
Joint Bookrunners	:	Collectively, Barclays, BNP Paribas, CIMB, Citi, CLSA, Credit Suisse, Credit Suisse Malaysia, Maybank IB, Morgan Stanley and HSBC
Joint Global Coordinators	:	Collectively, CIMB, Credit Suisse and Maybank IB
Joint Managing Underwriters	:	Collectively, CIMB, KIBB, Maybank IB and RHB
Joint Underwriters	:	Collectively, the Joint Managing Underwriters together with AFFIN and MIDF
KIBB	:	Kenanga Investment Bank Berhad
KLIA	:	Kuala Lumpur International Airport
KLIA 2	:	The new low-cost carrier terminal currently being constructed at or near to KLIA
LAT	:	Loss after taxation
LBITDAR	:	Loss before finance cost, taxation, depreciation, amortisation and aircraft rental expenses
LBT	:	Loss before taxation
LCC	:	Low-cost carrier
LCCT	:	Low Cost Carrier Terminal at KLIA
Listing	:	Listing of and quotation for 2,370,370,387 Shares representing the entire enlarged issued and paid up share capital of our Company on the Main Market
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	25 April 2013, being the latest practicable date prior to the registration of this Prospectus with the SC
Main Market	:	Main Market of Bursa Securities

Market Day	:	A day on which Bursa Securities is open for trading in securities
Master Purchase Agreement	:	Master aircraft purchase agreement between our Company and Airbus dated 14 June 2007, as amended, varied and supplemented
Maybank IB	:	Maybank Investment Bank Berhad
MFRS	:	Malaysian Financial Reporting Standards
MIDF	:	MIDF Amanah Investment Bank Berhad
MITI	:	Ministry of International Trade and Industry of Malaysia
Morgan Stanley	:	Morgan Stanley & Co. International plc
Offer for Sale	:	Offer for sale by the Selling Shareholders of up to 197,530,900 Offer Shares at the Institutional Price, subject to clawback and reallocation provisions and the Over-allotment Option, to Malaysian institutional and selected investors and foreign institutional and selected investors
Offer Shares	:	Shares to be offered pursuant to the Offer for Sale
Official List	:	A list specifying all securities which have been admitted for listing on Bursa Securities and not removed
operating fleet	:	10 A330-300s currently operated by our Company
Over-allotment Option	:	Over-allotment option granted by Orix Airline Holdings Limited and Manara Malaysia I Limited to the Stabilising Manager (on behalf of the Joint Bookrunners and Co-Lead Managers) as set out in Section 4.3.7 of this Prospectus
Participating Financial Institution	:	Participating financial institution for the Electronic Share Application
PAT	:	Profit after taxation
PBT	:	Profit before taxation
Price Determination Date	:	Date on which the Institutional Price and the Final Retail Price will be determined
Principal Adviser	:	CIMB
Promoters	:	Collectively, Aero Ventures Sdn Bhd, AirAsia Berhad, Dato' Kamarudin Bin Meranun, Tan Sri Dr. Anthony Francis Fernandes, Dato' Seri Kalimullah Bin Masheerul Hassan and Lim Kian Onn
Proposed Initial Grant	:	Proposed initial grant of up to 9,850,000 ESOS Options to Eligible Employees prior to our Listing
Prospectus Guidelines	:	Prospectus Guidelines – Equity and Debt, issued by the SC, as amended from time to time

Public Issue	:	Public issue of 592,592,600 Issue Shares, subject to clawback and reallocation provisions and the Over-allotment Option, to be allocated in the following manner: (i) 79,740,200 Issue Shares to Malaysian institutional and selected investors and foreign institutional and selected investors at the Institutional Price; (ii) 260,740,700 Issue Shares to Bumiputera institutional and selected investors approved by the MITI at the Institutional Price; (iii) 52,111,700 Issue Shares made available to the Eligible Persons at the Retail Price; (iv) 50,000,000 Issue Shares made available to the Eligible Passengers at the Retail Price; and (v) 150,000,000 Issue Shares made available to the Malaysian public at the Retail Price
RCPS	:	Redeemable convertible preference shares of RM1.00 each in the capital of our Company conferring on the holders thereof the rights and privileges and subject to the conditions as set out in our Articles
Retail Offering	:	Offering of 252,111,700 Issue Shares at the Retail Price, subject to clawback and reallocation provisions, to be offered in the following manner: (i) 52,111,700 Issue Shares made available to the Eligible Persons; (ii) 50,000,000 Issue Shares made available to the Eligible Passengers; and (iii) 150,000,000 Issue Shares made available to the Malaysian public
Retail Price	:	Initial price of RM1.45 per Issue Share to be fully paid by applicants pursuant to the Retail Offering subject to the adjustment as detailed in Section 4.7.2 of this Prospectus
RHB	:	RHB Investment Bank Berhad
Rules of the Depository	:	The Rules of Bursa Malaysia Depository Sdn Bhd
S-A-P	:	Strategic Airport Planning Ltd
SAC of the SC	:	Shariah Advisory Council of the SC
SC	:	Securities Commission Malaysia
Selling Shareholders	:	Aero Ventures Sdn Bhd, Orix Airline Holdings Limited and Manara Malaysia I Limited, being the parties undertaking the Offer for Sale

Share Lending Agreement	:	The agreement to be entered into by Orix Airline Holdings Limited and Manara Malaysia I Limited and the Stabilising Manager under which Orix Airline Holdings Limited and Manara Malaysia I Limited will lend Shares to the Stabilising Manager to cover over-allotments, if any
Shareholders' Benefit Programme	:	The benefit programme for AirAsia X shareholders, except for those who are directors and employees of the AirAsia Group, which was implemented by us and to commence from the date of our Listing as set out in Section 7.7.2 of this Prospectus
Shares	:	Ordinary shares of RM0.15 each in our Company
SICDA	:	Securities Industry (Central Depositories) Act, 1991, as amended from time to time and any re-enactment thereof
Stabilising Manager	:	Maybank IB
US Securities Act	:	United States Securities Act of 1993, as amended

CURRENCY

AUD	:	Australian dollars, the lawful currency of Australia
NZD	:	New Zealand dollars, the lawful currency of New Zealand
RM and sen	:	Ringgit Malaysia and sen, the lawful currency of Malaysia
THB	:	Thailand Baht, the lawful currency of Thailand
USD and US¢	:	United States dollars and United States cents, the lawful currency of the United States of America

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GLOSSARY OF TECHNICAL TERMS

'A' checks	:	The basic inspection and routine servicing conducted on an aircraft every 800 hours flown to ensure that the aircraft is in an airworthy state to continue flying
A330-200	:	Airbus' A330-200 mid-size, wide-body aircraft, with a service range of approximately 7,000 nautical miles or estimated flight duration of 13 hours
A330-300	:	Airbus' A330-300 mid-size, wide-body aircraft, with a service range of approximately 5,400 nautical miles or estimated flight duration of 11 hours based on our current configuration
A340-300	:	Airbus' A340-300 wide-body aircraft with a service range of approximately 7,400 nautical miles or estimated flight duration of 13 hours
A350-900	:	The new Airbus' A350-900 wide-body aircraft under development which is tailored to meet airlines' future market requirements, with a service range of up to 8,100 nautical miles or estimated flight duration of 14 to 15 hours
Asia Pacific Region	:	The region around the Western Pacific Ocean comprising Northeast Asia, Southeast Asia, South Asia and Oceania
ASK	:	Available seat kilometres, which is the total number of seats available on our Company's scheduled flights multiplied by the number of kilometres those seats were flown over a particular period
'C' checks	:	The maintenance performed on an aircraft at 18-month intervals, which takes approximately one week to complete, with a longer 24-day check every 72 months
CASK	:	Cost per available seat kilometre, which is derived by taking total operating costs (excluding finance costs and taxation) divided by ASK
Fly-Thru	:	Our flight connection service which allows seamless connection without having to obtain a transit visa when transiting at LCCT to other AirAsia Group destinations
IATA	:	The International Air Transport Association, an international trade body which represents some 240 airlines and the airline industry in general
ICAO	:	The United Nations International Civil Aviation Organization, a United Nations specialised agency which sets standards and regulations necessary for aviation safety, security, efficiency and regularity, as well as for aviation environmental protection
Long-haul	:	Flights with a duration of more than 4 hours
narrow-body aircraft	:	A medium-sized airliner with a single passenger aisle, with typically smaller passenger capacity and lower flight range capabilities as compared to wide-body aircraft

GLOSSARY OF TECHNICAL TERMS (cont'd)

on-time departure rate	:	An airline performance measure which is the ratio, expressed as a percentage, of the number of flights that depart the gate within 15 minutes of the scheduled departure time to the total number of flights For the purpose of computing on-time departure rate, in the event that a flight is retimed or rescheduled, the scheduled departure time will be changed to reflect the new planned timing, but the flight will still be classified as a delayed flight
on-time performance	:	An airline performance measure based on the number of flights that depart at the gate within 15 minutes after the published scheduled departure time
open skies agreement	:	A specific bilateral (between two governments) or multilateral agreement that places no quota on the number of flights or capacity that airlines can operate within the jurisdiction governed by the agreement
passenger load factor	:	A measure of the average occupancy of the total available capacity of an airline, i.e. RPK as a proportion of ASK
Premium FlatBed	:	Our premium passenger seats which feature standard business class specifications of 20 inches width, 60 inches pitch and stretch out to 77 inches in full recline position
RASK	:	Revenue per available seat kilometre, which is derived by total revenue divided by ASK
RASK-CASK spread	:	Being the difference between RASK and CASK, representing the operating profit of an airline on a per ASK unit basis
RPK	:	Revenue passenger kilometres, which is the number of paying passengers carried on scheduled flights multiplied by the number of kilometres those seats were flown
scheduled departure time	:	The planned departure time for aircraft based on flight schedules. In the case of a re-time or re-schedule, the scheduled departure time will reflect the new planned timing
seat pitch	:	An indication of legroom, referring to the space between a point on one seat and the same point on the seat in front of it
Short-haul	:	Flights with a duration of 4 hours or less
Skytrax	:	A specialist research advisor to the air transport industry providing product and service analysis and passenger research studies for airlines, airline alliances, airports and related air transport product and service suppliers globally

GLOSSARY OF TECHNICAL TERMS (cont'd)

technical dispatch reliability	:	A generally accepted industry standard airline performance measure, which is the ratio, expressed as a percentage, of the number of flights that do not incur a primary technical delay, or a primary technical cancellation, to the total number of flights For the purpose of this definition, primary technical cancellation means a flight cancellation due to a technical fault on the aircraft, and primary technical delay means a flight delay of more than 15 minutes from its scheduled departure time due to a technical fault on the aircraft
wet lease	:	A leasing arrangement whereby one airline (lessor) provides an aircraft, together with complete crew, maintenance and insurance to a lessee, and the operations of which are carried out as the lessee's flight
wide-body aircraft	:	A large airliner with two passenger aisles, with typically larger passenger capacity and higher flight range capabilities as compared to narrow-body aircraft

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1. INTRODUCTION

This Prospectus is dated 10 June 2013.

We have registered this Prospectus with the SC. We have also lodged a copy of this Prospectus together with the Application Forms with the Registrar of Companies Malaysia, who takes no responsibility for its contents.

We received the SC's approval for our IPO on 21 January 2013, as varied on 7 May 2013. The approval of the SC shall not be taken to indicate that the SC recommends our IPO. On 23 October 2012, we submitted an application to the SC for a Shariah compliance review to be carried out by the SAC of the SC as part of the process of determining our Shariah status for the purposes of our IPO, as subsequently updated on 19 April 2013. On 2 May 2013, the SAC of the SC classified our Shares as Shariah-compliant based on the latest audited financial information of our Company for the financial year ended 31 December 2012. This classification will remain valid until the next Shariah compliance review is undertaken by the SAC of the SC. Updates on the classification will be released in the updated list of Shariah-compliant securities on the last Friday of the month of May and November of each year.

You are advised to make your own independent assessment of our Company and should rely on your own evaluation to assess the merits and risks of our IPO and an investment in our Company.

We have applied to Bursa Securities and received its approval on 29 May 2013 for the admission of our Shares to the Official List of the Main Market and for permission to deal in and the listing of and quotation for all our Shares. Our Shares will be admitted to the Official List of the Main Market and official quotation will commence upon receipt of confirmation from Bursa Depository that all the IPO Shares have been credited into the respective CDS accounts of the successful applicants and the notices of allotment have been despatched to all successful applicants. Admission to the Official List of the Main Market shall not be taken as an indication of the merits of our Company, our Shares or our IPO.

Pursuant to Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as a prescribed security. Consequently, our Shares offered in our IPO will be deposited directly with Bursa Depository. Any dealings in our Shares will be carried out in accordance with the SICDA and the Rules of Bursa Depository. We will not issue any share certificates to successful applicants.

Pursuant to the Listing Requirements, at least 25% of the total number of Shares for which listing is sought must be held by at least 1,000 public shareholders holding not less than 100 Shares each at the point of our Listing. We expect to achieve this at the time of our Listing. In the event that the above requirement is not met, we may not be allowed to proceed with our Listing. Should such an event occur, we will return in full, without interest, monies paid in respect of all applications and if such monies are not returned in full within 14 days after we and the Selling Shareholders become liable to do so, in accordance with the provision of subsection 243(2) of the CMSA, in addition to the liability of our Company and the Selling Shareholders, the officers of our Company and the Selling Shareholders shall be jointly and severally liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be prescribed by the SC from the expiration of that period.

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In the case of an application by way of Application Form, you should state your CDS account number in the space provided in the Application Form. If you do not presently have a CDS account, you must open a CDS account with an ADA before making an application for the IPO Shares. For an application by way of Electronic Share Application, only an applicant who has a CDS account number can make an Electronic Share Application and you should furnish your CDS account number to a Participating Financial Institution by way of keying in your CDS account number if the instructions on the ATM screen at which you submit your Electronic Share Application requires you to do so. In the case of an application by way of Internet Share Application, only an applicant who has a CDS account opened with an Internet Participating Financial Institution can make an Internet Share Application. Arising therewith, your CDS account number will automatically appear in the electronic IPO online Application Forms. A corporation or institution cannot apply for the IPO Shares by way of Electronic Share Application or Internet Share Application.

IF YOU ARE IN ANY DOUBT ABOUT THIS DOCUMENT OR IN CONSIDERING YOUR INVESTMENT, YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR ANY OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

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2. CORPORATE DIRECTORY

DIRECTORS

Name	Address	Occupation	Nationality
Tan Sri Rafidah Aziz *(Independent Non-Executive Chairman)*	15, Jalan Setiamurni 2 Bukit Damansara 50490 Kuala Lumpur Malaysia	Company Director	Malaysian
Dato' Kamarudin Bin Meranun *(Non-Independent Non-Executive Director)*	27, Jalan Setiabakti 6 Bukit Damansara 50490 Kuala Lumpur Malaysia	Company Director	Malaysian
Tan Sri Dr. Anthony Francis Fernandes *(Non-Independent Non-Executive Director)*	37-2, Bangsar Heights Jalan Kaloi, Off Jalan Kurau 59100 Kuala Lumpur Malaysia	Company Director	Malaysian
Dato' Seri Kalimullah Bin Masheerul Hassan *(Non-Independent Non-Executive Director)*	1, Jalan USJ 2/7 UEP Subang Jaya 47610, Selangor Darul Ehsan Malaysia	Company Director	Malaysian
Kiyoshi Fushitani *(Non-Independent Non-Executive Director)*	G-203 Park Hills, 553-1 Shinano-Cho Totsuka-Ku, Yokohama-City Kanagawa-Pref Japan	Company Director	Japanese
Shan-E-Abbas Ashary *(Non-Independent Non-Executive Director)*	Al Yamama Village Compound Naseem Area, Riyadh Saudi Arabia	Chief Investment Officer	Canadian
Dato' Fam Lee Ee *(Non-Independent Non-Executive Director)*	2, Jalan Kenyalang 11/6G D'Villa, PJU 5 Kota Damansara 47810 Petaling Jaya Selangor Darul Ehsan Malaysia	Advocate and Solicitor	Malaysian
Lim Kian Onn *(Non-Independent Non-Executive Director)*	50, Jalan Setiamurni 6 Bukit Damansara 50490 Kuala Lumpur Malaysia	Company Director	Malaysian
Tan Sri Asmat Bin Kamaludin *(Independent Non-Executive Director)*	23, Jalan 14/37 46100 Petaling Jaya Selangor Darul Ehsan Malaysia	Company Director	Malaysian
Dato' Yusli Bin Mohamed Yusoff *(Independent Non-Executive Director)*	49, Jalan Seri Beringin 2 Seri Beringin Bukit Damansara 50490 Kuala Lumpur Malaysia	Company Director	Malaysian

2. CORPORATE DIRECTORY (cont'd)

DIRECTORS *(cont'd)*

Name	Address	Occupation	Nationality
Asher Noor *(Alternate Director to Shan-E-Abbas Ashary)*	Al Waha Garden Village Compound Granada Area Riyadh Saudi Arabia	Group Chief Financial Officer, Al-Touq Group	Pakistani
Kiyotaka Tanaka *(Alternate Director to Kiyoshi Fushitani)*	266-69 Akiba-Cho Totsuka-Ku, Yokohama-City Kanagawa-Pref 245-0052, Japan	Managing Director, Aviation and Investment Group	Japanese

AUDIT COMMITTEE

Name	Designation	Directorship
Dato' Yusli Bin Mohamed Yusoff	Chairman	Independent Non-Executive Director
Lim Kian Onn	Member	Non-Independent Non-Executive Director
Tan Sri Asmat Bin Kamaludin	Member	Independent Non-Executive Director

REMUNERATION COMMITTEE

Name	Designation	Directorship
Tan Sri Rafidah Aziz	Chairman	Independent Non-Executive Director
Dato' Kamarudin Bin Meranun	Member	Non-Independent Non-Executive Director
Tan Sri Asmat Bin Kamaludin	Member	Independent Non-Executive Director

NOMINATION COMMITTEE

Name	Designation	Directorship
Tan Sri Rafidah Aziz	Chairman	Independent Non-Executive Director
Tan Sri Dr. Anthony Francis Fernandes	Member	Non-Independent Non-Executive Director
Dato' Yusli Bin Mohamed Yusoff	Member	Independent Non-Executive Director

2. CORPORATE DIRECTORY (cont'd)

COMPANY SECRETARIES	:	Jasmindar Kaur A/P Sarban Singh (MAICSA No. 7002687) 18, Jalan TK 1/6, Taman Kinrara 7th Mile Jalan Puchong 47180 Puchong, Selangor Darul Ehsan Malaysia Ching Koon Kah @ Chin Kon Kah (MIA No. 8008) 2172, Jalan Besar 78300 Masjid Tanah, Melaka Malaysia
REGISTERED OFFICE	:	B-13-15, Level 13 Menara Prima Tower B Jalan PJU 1/39, Dataran Prima 47301 Petaling Jaya Selangor Darul Ehsan Malaysia Tel. No.: +603 7491 4318 Fax No.: +603 7887 2318 Email: airasiax@airasia.com
HEAD/MANAGEMENT OFFICE	:	Lot PT16, Jalan KLIA S7 Southern Support Zone, KLIA 64000 Sepang, Selangor Malaysia Tel. No.: +603 8660 4600 Fax No.: +603 8660 4777 Email: airasiax@airasia.com Website: www.airasia.com
AUDITORS AND REPORTING ACCOUNTANTS	:	PricewaterhouseCoopers (AF1146) Chartered Accountants Level 10, 1 Sentral, Jalan Travers Kuala Lumpur Sentral 50706 Kuala Lumpur Malaysia Tel. No.: +603 2173 1188
PRINCIPAL BANKERS *(in alphabetical order)*	:	CIMB Bank Berhad 10th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur Malaysia Tel. No.: +603 2084 8888

CIMB Bank Berhad, Labuan Offshore Branch
Level 14(a), Main Office Tower
Financial Park Labuan
Jalan Merdeka
87000 Labuan
F.T. Malaysia

Tel. No.: +603 2084 9210

Citibank Berhad
45th Floor, Menara Citibank
165, Jalan Ampang
50450 Kuala Lumpur
Malaysia

Tel. No.: +603 2383 2092

HSBC Bank Malaysia Berhad
Head Office, 2, Leboh Ampang
50100 Kuala Lumpur
Malaysia

Tel. No.: +603 2070 0744

Maybank Islamic Berhad
Menara Maybank
100, Jalan Tun Perak
50050 Kuala Lumpur
Malaysia

Tel. No.: +603 2070 8833

PRINCIPAL ADVISER :

CIMB Investment Bank Berhad
10th Floor, Bangunan CIMB
Jalan Semantan
Damansara Heights
50490 Kuala Lumpur
Malaysia

Tel. No.: +603 2084 8888

JOINT GLOBAL COORDINATORS
(in alphabetical order) :

CIMB Investment Bank Berhad
10th Floor, Bangunan CIMB
Jalan Semantan
Damansara Heights
50490 Kuala Lumpur
Malaysia

Tel. No.: +603 2084 8888

Credit Suisse (Singapore) Limited
1 Raffles Link
#03/#04-01 South Lobby
Singapore 039393

Tel. No.: +65 6212 2000

2. CORPORATE DIRECTORY (cont'd)

		Maybank Investment Bank Berhad 32nd Floor, Menara Maybank 100 Jalan Tun Perak 50050 Kuala Lumpur Malaysia Tel. No.: +603 2059 1888
JOINT BOOKRUNNERS *(in alphabetical order)*	:	Barclays Bank PLC 5 The North Colonnade Canary Wharf London E14 4BB United Kingdom Tel. No.: +852 2903 2737 (Equities Syndicate)
		BNP Paribas, Singapore Branch 20 Collyer Quay #01-01 Tung Centre Singapore 049319 Tel. No.: +65 6210 1288
		CIMB Investment Bank Berhad 10th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur Malaysia Tel. No.: +603 2084 8888
		Citigroup Global Markets Limited Citigroup Centre Canada Square Canary Wharf London E14 5LB United Kingdom Tel. No.: +44 20 7986 4000
		CLSA Singapore Pte Ltd 80 Raffles Place #18-01 UOB Plaza 1 Singapore 048624 Tel. No.: +65 6416 7888
		Credit Suisse (Singapore) Limited 1 Raffles Link #03/#04-01 South Lobby Singapore 039393 Tel. No.: +65 6212 2000

2. CORPORATE DIRECTORY (cont'd)

Credit Suisse Securities (Malaysia) Sdn Bhd
Suite 7.6, Level 7, Menara IMC
8 Jalan Sultan Ismail
50250 Kuala Lumpur

Tel. No.: +603 2723 2020

Maybank Investment Bank Berhad
32nd Floor, Menara Maybank
100 Jalan Tun Perak
50050 Kuala Lumpur
Malaysia

Tel. No.: +603 2059 1888

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Tel. No.: +44 20 7425 8000

The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch
21 Collyer Quay
HSBC Building
Singapore 049320

Tel. No.: +65 6216 9008

JOINT MANAGING UNDERWRITERS AND JOINT UNDERWRITERS *(in alphabetical order)* :

CIMB Investment Bank Berhad
10th Floor, Bangunan CIMB
Jalan Semantan
Damansara Heights
50490 Kuala Lumpur
Malaysia

Tel. No.: +603 2084 8888

Kenanga Investment Bank Berhad
8th Floor, Kenanga International
Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

Tel. No.: +603 2164 9080

Maybank Investment Bank Berhad
32nd Floor, Menara Maybank
100 Jalan Tun Perak
50050 Kuala Lumpur
Malaysia

Tel. No.: +603 2059 1888

2. CORPORATE DIRECTORY (cont'd)

		RHB Investment Bank Berhad Level 10, Tower One RHB Centre Jalan Tun Razak 50400 Kuala Lumpur Malaysia Tel. No.: +603 9287 3888
JOINT UNDERWRITERS *(in alphabetical order)*	:	AFFIN Investment Bank Berhad 27th Floor, Menara Boustead 69, Jalan Raja Chulan 50200, Kuala Lumpur Malaysia Tel. No.: +603 2142 3700 MIDF Amanah Investment Bank Berhad Level 8, 9, 10, 11 & 12 Menara MIDF 82, Jalan Raja Chulan 50200 Kuala Lumpur Malaysia Tel. No.: +603 2173 8888
CO-LEAD MANAGERS *(in alphabetical order)*	:	Kenanga Investment Bank Berhad 8th Floor, Kenanga International Jalan Sultan Ismail 50250 Kuala Lumpur Malaysia Tel. No.: +603 2164 9080 RHB Investment Bank Berhad Level 10, Tower One RHB Centre Jalan Tun Razak 50400 Kuala Lumpur Malaysia Tel. No.: +603 9287 3888
LEGAL ADVISERS	:	*To the Company as to Malaysian law* Christopher Lee & Co. 25-2, Block B, Jaya One Section 13 No. 72A Jalan Universiti 46200 Petaling Jaya Malaysia Tel. No.: +603 7958 8310 *To the Company as to United States and English law* Pillsbury Winthrop Shaw Pittman LLP 2300 N Street NW Washington, DC 20037-1122 United States of America Tel. No.: +1 202 663 8000

2. CORPORATE DIRECTORY (cont'd)

		To the Joint Global Coordinators, Joint Bookrunners, Joint Managing Underwriters, Joint Underwriters and Co-Lead Managers as to Malaysian law Zaid Ibrahim & Co. Level 19, Menara Milenium Jalan Damanlela Pusat Bandar Damansara 50490 Kuala Lumpur Malaysia Tel. No.: +603 2087 9999
		To the Joint Global Coordinators and Joint Bookrunners as to United States and English law Allen & Overy LLP 50 Collyer Quay #09-01 OUE Bayfront Singapore 049321 Tel. No.: +65 6671 6000
INDEPENDENT MARKET RESEARCH CONSULTANT	:	Strategic Airport Planning Ltd 55, Soi Langsuan, Suite 1902 Ploenchit Road Bangkok Thailand 10330 Tel. No.: +66 86 060 4626
SHARE REGISTRAR	:	Symphony Share Registrars Sdn Bhd Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan Malaysia Tel. No.: +603 7841 8000
ISSUING HOUSE	:	Malaysian Issuing House Sdn Bhd Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan Malaysia Tel. No.: +603 7841 8000
LISTING SOUGHT	:	Main Market of Bursa Securities
SHARIAH STATUS	:	Approved by the SAC of the SC

3. SUMMARY

This section is only a summary of the selected salient information about us and the IPO and is extracted and summarised from the full text of this Prospectus and may not contain all of the information about us and the IPO which may be important to you. You should read and understand the whole Prospectus before deciding whether to invest in our Shares. You are advised to read the risk factors described in Section 5 of this Prospectus for an understanding of the risks associated with an investment in our Company.

3.1 Overview

We are a leading low-cost, Long-haul airline, operating primarily in the Asia Pacific Region. Based upon our breakthrough business model, we believe that we have the lowest unit cost base of any airline in the world[(1)], with a CASK of US¢3.74 and CASK (excluding fuel) of US¢1.90 for 2012. This implies a 67.3% and 75.3% lower CASK and CASK (excluding fuel), respectively, as compared to the average CASK and CASK (excluding fuel) of the 10 largest FSCs based in the Asia Pacific Region (ranked by operating revenue) that reported these figures (source: S-A-P). This in turn has enabled us to offer fares[(2)] that are targeted, on average, to be 30% - 50% lower than FSCs and to stimulate new market demand, whereby passenger volumes between Kuala Lumpur and other destinations we serve grew by an average of over 90% from the year before the launch of each route to the year ended 31 December 2012.

We currently serve 14 destinations across Asia (Tokyo, Osaka, Seoul, Taipei, Beijing, Hangzhou, Chengdu, Shanghai and Kathmandu), Australia (Sydney, Melbourne, Perth and Gold Coast) and the Middle East (Jeddah) with flights to an additional destination, namely Busan, commencing in July 2013. We currently operate a fleet of 10 A330-300s for scheduled services, and have 2 A340-300s which are currently wet-leased. We have also accepted delivery of an additional A330-300, scheduled to commence operations in July 2013. Our fleet represents the largest LCC wide-body aircraft seat capacity in the Asia Pacific Region.

Our breakthrough model benefits from our association with the AirAsia Group. From commencement of operations, we have been able to leverage the AirAsia Group's globally recognised brand and large existing customer base, as well as the broad and deep Short-haul LCC network. The broad network served by the other carriers in the AirAsia Group comprises 81 destinations around Asia from 16 hubs as at the LPD, that provides vital feed to and from our hub in Kuala Lumpur. In terms of the depth of the network, the other carriers in the AirAsia Group collectively account for a weekly frequency of 2,864 return flights, or 5,728 one-way flights as at the LPD.

With our early mover advantage, the largest LCC wide-body aircraft seat capacity in the Asia Pacific Region, our growing route network and passenger base, and lower costs and fares than FSCs, our vision is to be a leading Long-haul LCC globally. We expect to achieve this by exploiting a significantly under-served segment of price-sensitive air travellers on Long-haul routes that extend beyond the commercial range limitations of narrow-body aircraft range used by traditional Short-haul LCCs. To this end, we are scheduled to receive delivery of 22 additional A330-300s up to 2017, and have a firm order for 10 A350-900s beyond that. With 5 A330-300s to be delivered for the remainder of 2013 and 7 A330-300s to be delivered in 2014, we believe we are poised to continue growing in the near future. Together with the broader AirAsia Group, we are working towards creating the world's first global, multi-hub LCC network, with complementary Short-haul and Long-haul networks.

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(1) *Based on comparisons performed against the top 10 FSCs and LCCs by operating revenue based in the Asia Pacific Region and the averages of the top 10 FSCs and LCCs by operating revenue based in Europe and North America, details as set out in the 'Key Financial and Operating Performance' table in Section 2.8 of S-A-P's report in Section 8 of this Prospectus*

(2) *Inclusive of ancillary charges for seat selection, 20kg baggage, meal and airport taxes*

We have a unique organisational culture and capability, balancing rigorous cost focus and discipline aimed at delivering the lowest unit operating cost; industry-leading reliability and on-time performance standards; and customer satisfaction levels comparable to the ratings achieved by Asia Pacific FSCs.

We believe we are a leader in the LCC industry in product innovation. Our innovations in the LCC market include introducing the world's first Premium FlatBed seats, pioneering transfer "Fly-Thru" connection services, as well as introducing portable in-flight entertainment units and various seat assignment and upgrade options. Partly as a result of these innovations, we achieved the highest and the fourth highest reported ancillary revenue per passenger of any airline in the world in 2010 and 2011, respectively, and continued to grow the same by 14.9% from 2011 to 2012. We achieved all of this while simultaneously maintaining what we believe is the lowest unit cost base among all airlines globally[3].

The above factors have been instrumental in fuelling our rapid growth. We have achieved a CAGR in passenger volume and RPK traffic of 76.8%, and 76.5%, respectively, from 2008 to 2012. Our revenue has grown from RM230.7 million in 2008 to RM2.0 billion in 2012, representing a CAGR of 70.9%. This growth includes our withdrawn routes, details of which are set out in Section 7.6.5 of this Prospectus.

We have achieved this growth despite the global economic downturn and other external shocks that have affected the global airline industry and the markets that we serve during this period. We believe that we are one of the fastest growing start-up LCC airlines in terms of RPK growth in the world, after taking into account our year of launch (2007) and our current RPK (in 2012), as compared to the RPK of other global LCCs based on publicly available data.

Please refer to Section 7 of this Prospectus for further information on our business.

3.2 Competitive Strengths

We have achieved and maintained our position as a leading low-cost, Long-haul carrier in the Asia Pacific Region due to the following strengths:

- **We Have An Early Mover Advantage In the Low-Cost, Long-haul Segment Globally, Which Is Poised For Substantial Growth In The Coming Years**

  Early movers in the LCC industry, such as Southwest Airlines in North America, Ryanair and Easyjet in Europe and AirAsia in Southeast Asia, remain successful leaders in their respective markets, even after entry by other competing LCCs. Early movers have a significant advantage from experience accumulated over their years of operation, leading to an institutionalised knowledge base and skill set within their organisations, allowing them to keep growing at a faster pace and deploy resources more effectively than new entrants.

  We believe we have a similar opportunity to be a market leader in the global low-cost, Long-haul segment, which we believe is poised for substantial growth, similar to the levels that occurred in Short-haul air travel markets with the introduction of LCC services. Based on the demand we have stimulated in the markets we serve, we believe Long-haul air travel is similarly price-elastic and poised for comparable high growth with the introduction of lower fares for consumers.

(3) *Based on comparisons performed against the top 10 FSCs and LCCs by operating revenue based in the Asia Pacific Region and the averages of the top 10 FSCs and LCCs by operating revenue based in Europe and North America, details as set out in the 'Key Financial and Operating Performance' table in Section 2.8 of S-A-P's report in Section 8 of this Prospectus*

We believe our early mover advantage gives us a strong competitive advantage over new entrants in the segment and will enable us to continue to lead the segment in the coming years.

- **We Operate In Some of the Largest and Fastest Growing Aviation Markets in The World**

We are well positioned to serve key growth markets around the world from our hub in Kuala Lumpur. Our strong positioning in the Asia Pacific Region in particular allows us to benefit from further expected growth in these markets. According to S-A-P, passenger volumes, measured in RPK, from 2011 to 2031 on routes within the Asia Pacific Region, routes within Southeast Asia, routes between Southeast Asia and Oceania, routes between Southeast Asia and China and routes between the Asia Pacific Region and the Middle East are estimated to grow significantly faster than RPK growth globally. With an estimated population of 3.4 billion in 2012, and projected growth by up to an additional 164.0 million by 2017 according to S-A-P, the Asia Pacific Region will continue to be a large and attractive feeder market for our Long-haul routes.

We also believe that we operate in an underpenetrated home market relative to other major Asian airports in terms of Long-haul flights. We believe our home market provides additional growth opportunities for us to serve some of the world's largest and fastest-growing aviation markets.

- **We Believe That We Have the Lowest Unit Operating Cost Base of Any Airline in the World**

As a result of our high aircraft utilisation, high seat density, modern, fuel-efficient and focused aircraft type fleet, high labour productivity, streamlined airport operations and lower marketing and sales costs, we believe that we have the lowest unit operating cost base of any airline in the world(4). Our CASK and CASK (excluding fuel) was US¢3.74 and US¢1.90, respectively, for 2012, which was 67.3% and 75.3% lower, respectively, than the average CASK and CASK (excluding fuel) of the 10 largest FSCs based in the Asia Pacific Region (ranked by operating revenue) that reported these figures.

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(4) *Based on comparisons performed against the top 10 FSCs and LCCs by operating revenue based in the Asia Pacific Region and the averages of the top 10 FSCs and LCCs by operating revenue based in Europe and North America, details as set out in the 'Key Financial and Operating Performance' table in Section 2.8 of S-A-P's report in Section 8 of this Prospectus*

- **We Have Developed a High-Quality Operating Model and Product**

  Even though we operate with a low unit cost, we strive to deliver a high-quality operating model to satisfy the needs of Long-haul passengers both in terms of comfort and reliability. We operate one of the youngest wide-body fleets in the Asia Pacific Region. Our operating fleet (excluding the new A330-300 delivered to us in April 2013) had an average age of 4.9 years as of March 2013, compared to an average of 9.1 years for the wide-body fleet of carriers based in the Asia Pacific Region (excluding AirAsia X)[(5)], according to S-A-P and our newer aircraft offer a better cabin experience for passengers. We operate with a high degree of operational reliability; in 2012, we achieved a technical dispatch reliability rate of 99.4%. In addition, in 2012 we achieved an on-time performance rate of 85.0%, compared to an average of 84.2% for FSCs based in the Asia Pacific Region[(6)] and an average of 81.4% for LCCs based in the Asia Pacific Region[(6)] (source: S-A-P). Furthermore, we scored 7.6 out of 10 in the Skytrax airline customer review rating reported as of March 2013, compared to an average of 8.3 for 5-star airlines[(7)], an average of 7.0 for FSCs[(7)], and an average of 6.1 for LCCs[(7)] (excluding AirAsia X), based in the Asia Pacific Region (source: S-A-P).

- **We Have One of the Highest Ancillary Revenue Per Passenger Levels Among Airlines That Report Such Figures**

  Our focus on developing innovative ancillary revenue streams has enabled us to achieve one of the highest ancillary revenue per passenger levels in the aviation industry. We produced ancillary revenue per passenger of USD46.07 and USD48.82 in 2012 and the 3 months ended 31 March 2013, respectively. According to S-A-P, our ancillary revenue per passenger in 2010 of USD38.92 was the highest and that of USD40.09 in 2011 was fourth highest among global airlines reporting ancillary income. These results can be attributed to a higher propensity for passengers on Long-haul flights to purchase food, merchandise and other products due to longer flight durations. Our high ancillary revenue per passenger can also be attributed to our innovation in providing new and attractive pre-flight and on-board purchase options to our passengers.

- **As a Member of the AirAsia Group, We Are Able to Benefit From the AirAsia Brand, Cross Selling Opportunities and the Group's Collective Purchasing Power**

  Since commencement of operations, we have leveraged the strength of the global AirAsia brand, which has enabled us to minimise both our start-up costs and time-to-market. The AirAsia brand enjoys global visibility and recognition. We also leverage the AirAsia Group's larger customer base and extensive Short-haul feeder network to market our Long-haul services. Finally, the combined economic size of the AirAsia Group affords us more bargaining power to negotiate aircraft and component purchases, leasing and financing contracts and fuel purchases.

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(5) *Based on those carriers in the Asia Pacific Region that operate a significant number of wide-body aircraft and that S-A-P believes provide a relevant basis for comparison*

(6) *Based on the top 10 (ranked by operating revenue) FSCs/LCCs in Asia which reported financial and operating performance, that have available data for the latest 12 month periods*

(7) *Based on major FSCs/LCCs in the Asia Pacific Region that S-A-P believes provide a relevant basis for comparison and have available data*

- **We Have An Experienced and Stress Tested Management Team and Shareholders**

  Our key management team, led by Azran Bin Osman Rani, has extensive managerial experience and technical competencies. Most of our key management team members, including Azran Bin Osman Rani, have been at our Company since the start of our Long-haul operations. We believe the experience and expertise of our key management team, and their track record of working together, have contributed significantly to our growing operations. Furthermore, our strong management team is guided by our experienced Board of Directors and shareholders, who bring a wealth of experience in the LCC and other industries.

Please refer to Section 7.2 of this Prospectus for further information on our competitive strengths.

3.3 Strategies and Future Plans

Our vision is to be a leading Long-haul LCC globally and to create, together with other carriers of the AirAsia Group, the first global, multi-hub low-cost carrier network. The main components of our strategy are to:

- **Expand Our Passenger Base By Growing Our Route Network and Increasing Our Hubs of Operations**

  The strategic principle underlying our choice of routes to operate is a focus on markets with the highest growth potential and where we can build a market leadership position. Our expansion strategy from the current network of 14 routes in 7 markets we serve from Kuala Lumpur will be based on stimulating demand and increasing frequencies on existing core routes, opening new routes in existing core markets, establishing routes in new markets in the medium term and creating new hubs.

- **Grow our Fleet of New, Fuel-Efficient Aircraft to Meet Passenger Demand and Our Expanding Route Mix**

  Our fleet plan is focused on increasing our fleet size and maintaining a fleet of modern and focused type aircraft. We intend to increase our operating fleet size to 32 by 2016 through a mixed strategy of purchasing and leasing aircraft in order to execute our route development plan. We anticipate that we will fly only A330-300s and A350-900s going forward and expect that the greater fuel efficiency and the longer range of the A350-900 will enable us to fly to destinations that would not be commercially feasible with our current fleet.

- **Strengthen the AirAsia Brand In Our Markets and Maintain High Customer Satisfaction**

  We intend to continue to invest in promoting the awareness and acceptance of the AirAsia brand in our markets through continued aggressive and innovative direct-to-consumer marketing (including marketing our brand, the appeal of our destinations, and our promotional fares), leveraging the branding, digital media and global sponsorship activities of the AirAsia Group, including using the AirAsia Expedia platforms and the AirAsia BIG loyalty programme, and increasing the profile and visibility of the brand on traditional and new media through engaging communications strategies. In addition, we have implemented a comprehensive customer management programme, including regularly collecting customer feedback from surveys, focusing on key passenger touch points and continuously improving our service delivery and customer advocacy and loyalty.

- **Maximise Passenger Revenue and Develop Ancillary Revenue Streams**

  We intend to maximise our revenue by capitalising on the potential for increases in passenger seat sales due to the increasing maturity of our routes, the use of our dynamic revenue management system in order to manage revenue from passenger seat sales and maximising and introducing new sources of ancillary revenue.

- **Continue to Implement Initiatives to Strengthen Our Operations Quality and Cost Structure**

  By maintaining our global cost leadership position, improving our operational reliability and implementing our integrated safety management system, we intend to strengthen the quality of our operations and improve our cost structure.

Please refer to Section 7.3 of this Prospectus for further information on our strategies and future plans.

3.4 Risk Factors

Our business is subject to many risks and uncertainties, including those highlighted in Section 5 of this Prospectus. Before investing in our Shares, you should carefully consider, along with other matters in this Prospectus, the risks of such an investment. The challenges that we currently face or that may develop in the future may materially adversely affect our future operating results and performance. The factors that affect such operating results and performance include, but are not limited to, the following:

- **Terrorist attacks, natural disasters, epidemics and social and political unrest in the regions in which we operate.**

  The airline industry in general has suffered substantial losses in recent years as a result of terrorism, natural disasters, epidemics, social and political unrest and other global factors. Any of these types of events, or other events that are not within our control, may have a significant adverse impact on the demand for our services or increase our operating costs, either of which may have a material adverse impact on our financial condition and results of operations.

- **The general economic conditions in the markets in which we operate.**

  We currently conduct substantially all of our operations and generate substantially all of our revenue in the Asia Pacific Region. We expect to focus on network development in markets in the Asia Pacific Region and will prioritise capacity towards launching new routes and expanding frequency in the foreseeable future into several priority markets. Poor economic conditions in these key regions and other regions within which we operate would have an adverse effect on our business operations and financial condition.

- **The industry in which we operate is capital intensive and has high fixed costs.**

  The airline industry has high start-up and fixed costs due to the nature of the business. Any events that cause a shortfall in revenue levels without a corresponding decrease in fixed costs, would have a material adverse impact on our business and financial and operational conditions.

- **Our ability to compete with other airlines in a highly competitive industry.**

  There is intense competition in the airline industry between airlines. We may face direct competition from existing carriers or other new competitors in the future. Given the competitive nature of our industry, there is no assurance that we can maintain or expand our levels of market share, traffic volume and revenue in the future.

- **Our ability to obtain regulatory approvals and licences to operate in our existing markets and to gain access to new markets.**

  We require certain approvals, licences, registrations and permissions to operate our business, and we must comply with all regulations applicable to the operation of our business in order to retain those approvals, licences, registrations and permissions. If we fail to obtain any of these approvals or licences or renewals thereof in a timely manner or at all, our business could be adversely affected. Further, if we fail to comply with applicable regulations we may be subject to corrective measures and monitoring.

- **Our ability to successfully implement our growth strategy.**

  Our ability to increase our flight frequencies and our market share depends on our ability to obtain additional or new air traffic rights to airports situated within the targeted markets, and our ability to identify strategic routes in such markets for which such air traffic rights would be obtained. Our growth strategy also depends on our ability to obtain additional or new aircraft and the timely delivery of such aircraft, as well as on our ability to obtain adequate financing on reasonable terms for the acquisition of additional or new aircraft. There is no assurance of our success in increasing flight frequencies, establishing new markets or expanding our current market share, and any failure to do so would harm our business operations, financial condition, profitability and growth prospects.

- **Increases in fuel prices or limitations on fuel supply.**

  Fuel costs constitute a substantial portion of our operating expenses, amounting to an average of approximately 49.0% of our total operating expenses for each of the years from 2010 to 2012 and 47.4% of our total operating expenses for the 3 months ended 31 March 2013. As such, our operating results are significantly affected by changes in the availability and the cost of jet fuel. Any exorbitant increase in fuel price or a fuel shortage would have a material adverse effect on our financial results.

- **Increases in the cost of airport facilities and services, or any restrictions on access to such airport facilities and services.**

  We are dependent on the quantity and quality of airport infrastructure for our operations. There can be no assurance of the availability of these airport facilities or services on commercially acceptable terms to support our growth and expansion plans, and the lack of any of these facilities or services may have a material adverse effect on our business operations and financial results.

- **Problems that may be associated with the reliability or availability of the A330-300 and the engines we use.**

  As our business largely depends on procuring, operating and maintaining specific types of aircraft and engines, we are particularly vulnerable to any problems that might be associated with such aircraft or engine types. Our business would be significantly affected if there was a defect in the design or mechanics of such aircraft or engines.

- **Any accident or sufficiently disruptive or dangerous incident involving any of our aircraft or any AirAsia Group aircraft.**

  If any of our aircraft were lost or damaged due to either an accident or a sufficiently disruptive or dangerous incident, we would be exposed not only to potential significant losses due to required repairs or replacements of the affected aircraft and the temporary or permanent loss of use of that aircraft, but also the negative public perception of the quality of our airline's safety practices. Further, any accidents or other dangerous incidents involving other airlines in the AirAsia Group may be associated with our Company.

- **Our reliance on the AirAsia brand and on our association with the AirAsia Group.**

  Our success depends, in part, on our continued ability to use the AirAsia trade name and related trademarks in order to increase our brand awareness. Further, we rely substantially on our association with AirAsia Berhad and the other members of the AirAsia Group and on various shared services including, but not limited to, use of the brand name, information technology (including the www.airasia.com website through which 84% of our seats were sold for the year ended 31 December 2012), fuel procurement and hedging, and other services that provide negotiation strength and economies of scale through our association with the AirAsia Group. If we are unable to leverage the AirAsia trade name, business network, expertise and overall relationship with AirAsia Berhad and the AirAsia Group in any material respect, our business, results of operations and prospects would be materially and adversely affected.

- **Our ability to raise new equity and obtain financing for the expansion of our aircraft fleet.**

  In the past, we have required financing to acquire the aircraft in our fleet and we are most likely to require financing and incur significant amounts of debt in the future to fund the acquisition of additional aircraft. However, we cannot provide assurance that additional financing will be available to us on favourable terms or at all.

- **Our exposure to currency exchange rate movements.**

  As at 31 March 2013, 79.0% of our total borrowings of RM1.4 billion were denominated in USD. We are therefore exposed to any significant exchange rate movement of the USD. Furthermore, due to the geographic diversity of our business, we receive revenue and incur expenses in a variety of international currencies and therefore face currency exchange rate risks. Appreciation or depreciation in the value of the USD or other foreign currency relative to the RM, may have a significant impact on our financial results as reported in RM.

Please refer to Section 5 of this Prospectus for further information on the risks relating to our business and risks relating to an investment in our Shares.

3.5 Summary of Historical Consolidated Income Statements and Statements of Comprehensive Income and Cash Flow

The following historical audited consolidated income statements and statements of comprehensive income of our Group for the years ended 31 December 2010, 2011 and 2012 have been derived from the Accountants' Report in Section 13 of this Prospectus and our historical unaudited consolidated income statements and statements of comprehensive income for the 3 months ended 31 March 2012 and 2013 have been prepared by our Management. The historical audited and unaudited consolidated income statements and statements of comprehensive income should be read in conjunction with Section 12.8 herein and the Accountants' Report in Section 13 of this Prospectus and our quarterly report for the 3 months ended 31 March 2013 and related notes set out in Annexure D of this Prospectus, respectively. The historical financial information included in this Prospectus is not a forecast of our Group's results of operations, financial position and cash flows in the future, and our Group's past operating results are not necessarily indicative of our Group's future operating performance.

For avoidance of doubt, the financial information reflected in USD for the financial years / periods presented are unaudited.

The audited consolidated financial statements for our Group were not subject to any audit modification for the years ended 31 December 2010, 2011 and 2012.

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3. SUMMARY (cont'd)

	Audited				Unaudited		
	Year ended 31 December				3 months ended 31 March		
	2010	2011	2012	2012	2012	2013	2013
	RM 000			USD 000	RM 000		USD 000
Revenue							
- Scheduled flights	994,070	1,410,379	1,283,577	415,397	382,827	353,883	114,897
- Charter flights	8,648	4,218	67,848	21,957	2,754	15,577	5,057
- Fuel surcharge	2	44,427	148,226	47,970	34,468	49,769	16,159
- Freight and cargo	54,966	96,471	79,267	25,653	24,640	19,914	6,466
- Ancillary revenue	237,668	307,137	363,934	117,778	91,213	96,255	31,252
- Refund	(6,400)	(615)	(1,799)	(582)	(6)	(211)	(69)
- Management fees	148	364	364	118	93	90	29
- Others	-	-	26,010	8,417	720	-	-
Total revenue	1,289,102	1,862,381	1,967,427	636,708	536,709	535,277	173,791
Operating expenses							
- Staff costs	(125,234)	(158,418)	(180,498)	(58,414)	(44,649)	(45,627)	(14,814)
- Depreciation of property, plant and equipment	(101,791)	(104,837)	(107,097)	(34,659)	(26,570)	(26,788)	(8,697)
- Aircraft fuel expenses	(597,875)	(1,018,428)	(925,294)	(299,448)	(263,212)	(226,704)	(73,605)
- Maintenance, overhaul, user charges and other related expenses	(229,190)	(306,157)	(381,545)	(123,477)	(92,537)	(94,450)	(30,666)
- Aircraft operating lease expenses	(74,320)	(145,803)	(152,408)	(49,323)	(37,960)	(37,771)	(12,263)
- Other operating expenses	(192,832)	(203,129)	(178,598)	(57,799)	(39,724)	(47,430)	(15,399)
Total operating expenses	(1,321,242)	(1,936,772)	(1,925,440)	(623,120)	(504,652)	(478,770)	(155,444)
Other income	39,338	14,282	6,981	2,259	1,335	1,082	351
Operating profit / (loss)	7,198	(60,109)	48,968	15,847	33,392	57,589	18,698
Finance income	2,143	6,002	1,876	607	366	327	106
Finance costs	(55,073)	(52,245)	(56,438)	(18,265)	(11,843)	(13,529)	(4,393)
Foreign exchange gain / (loss) on borrowings	143,687	(25,082)	43,599	14,110	34,998	(9,622)	(3,124)
PBT / (LBT)	97,955	(131,434)	38,005	12,299	56,913	34,765	11,287
Taxation							
- Current taxation	(641)	(1,556)	900	291	(259)	(82)	(27)
- Deferred taxation	49,288	36,361	(5,055)	(1,636)	(8,122)	15,514	5,037
Total taxation	48,647	34,805	(4,155)	(1,345)	(8,381)	15,432	5,010
PAT / (LAT)	146,602	(96,629)	33,850	10,954	48,532	50,197	16,297
Other comprehensive gain, net of tax							
- Foreign currency translation differences	4	(69)	(1)	*	1	30	10
Total comprehensive income for the financial year	146,606	(96,698)	33,849	10,954	48,533	50,227	16,307
Total comprehensive income attributable to:							
- Equity holders of the Company	146,606	(96,698)	33,849	10,954	48,533	50,227	16,307
- Non-controlling interests	-	-	-	-	-	-	-
	146,606	(96,698)	33,849	10,954	48,533	50,227	16,307

* *Negligible*

3. SUMMARY (cont'd)

	Year ended 31 December				3 months ended 31 March		
	2010	2011	2012	2012	2012	2013	2013
	RM 000			USD 000	RM 000		USD 000
Other selected financial data:							
Gross profit[(1)]	163,408	168,535	290,699	94,077	87,151	120,799	39,221
EBITDAR[(2)]	183,309	190,531	308,473	99,829	97,922	122,148	39,658
EBITDA[(2)]	108,989	44,728	156,065	50,506	59,962	84,377	27,395
Gross profit margin (%)[(3)]	12.7%	9.0%	14.8%	14.8%	16.2%	22.6%	22.6%
EBITDAR margin (%)[(4)]	14.2%	10.2%	15.7%	15.7%	18.2%	22.8%	22.8%
EBITDA margin (%)[(5)]	8.5%	2.4%	7.9%	7.9%	11.2%	15.8%	15.8%
PBT / (LBT) margin (%)[(6)]	7.6%	(7.1)%	1.9%	1.9%	10.6%	6.5%	6.5%
PAT / (LAT) margin (%)[(7)]	11.4%	(5.2)%	1.7%	1.7%	9.0%	9.4%	9.4%
Basic earnings / (losses) per ordinary share (sen)[(8)]	62.2	(36.2)	12.7	4.1	18.2	18.8	6.1
Diluted earnings / (losses) per ordinary share (sen)[(9)]	62.2	(36.2)	12.7	4.1	18.2	18.8	6.1

Notes:

(1) *Computed based on total revenue less all direct costs which include staff costs, fuel and oil, maintenance, overhaul and user charges, meals and merchandise, sales and distribution, aircraft operating lease expenses and ramp and other operating costs.*

(2) *EBITDA represents earnings before finance cost, taxation, depreciation and amortisation, while EBITDAR represents earnings before finance cost, taxation, depreciation, amortisation and aircraft rental expenses. The table below sets forth the reconciliations of our PAT / (LAT) to EBITDA and EBITDAR.*

	Audited				*Unaudited*		
	Year ended 31 December				*3 months ended 31 March*		
	2010	*2011*	*2012*	*2012*	*2012*	*2013*	*2013*
	RM 000			*USD 000*	*RM 000*		*USD 000*
PAT / (LAT)	*146,602*	*(96,629)*	*33,850*	*10,954*	*48,532*	*50,197*	*16,297*
Taxation	*(48,647)*	*(34,805)*	*4,155*	*1,345*	*8,381*	*(15,432)*	*(5,010)*
PBT / (LBT)	*97,955*	*(131,434)*	*38,005*	*12,299*	*56,913*	*34,765*	*11,287*
Finance income	*(2,143)*	*(6,002)*	*(1,876)*	*(607)*	*(366)*	*(327)*	*(106)*
Finance cost	*55,073*	*52,245*	*56,438*	*18,265*	*11,843*	*13,529*	*4,393*
Foreign exchange (gain) / loss on borrowings	*(143,687)*	*25,082*	*(43,599)*	*(14,110)*	*(34,998)*	*9,622*	*3,124*
Depreciation	*101,791*	*104,837*	*107,097*	*34,659*	*26,570*	*26,788*	*8,697*
EBITDA	*108,989*	*44,728*	*156,065*	*50,506*	*59,962*	*84,377*	*27,395*
Aircraft operating lease expenses	*74,320*	*145,803*	*152,408*	*49,323*	*37,960*	*37,771*	*12,263*
EBITDAR	*183,309*	*190,531*	*308,473*	*99,829*	*97,922*	*122,148*	*39,658*

EBITDA, EBITDAR, as well as the related ratios presented in this Prospectus are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with the FRS and MFRS. EBITDA and EBITDAR are not measurements of financial performance or liquidity under the FRS and MFRS and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with the FRS and MFRS or as alternatives to cash flows from operating activities or as measures of liquidity.

The EBITDA and EBITDAR presented herein may not be comparable to similarly titled measures presented by other companies. You should not compare our EBITDA and EBITDAR to the EBITDA and EBITDAR presented by other companies because not all companies use the same definition.

(3) *Computed based on the gross profit divided by total revenue of our Group.*

(4) *Computed based on the EBITDAR divided by total revenue of our Group.*

(5) *Computed based on the EBITDA divided by total revenue of our Group.*

(6) *Computed based on the PBT / (LBT) divided by total revenue of our Group.*

(7) *Computed based on the PAT / (LAT) divided by total revenue of our Group.*

(8) Computed based on PAT / (LAT) divided by weighted average number of ordinary shares of our Group.

(9) Computed based on PAT / (LAT) divided by weighted average number of ordinary shares of our Group.

The following table sets forth the condensed consolidated cash flow statements of our Group for the periods indicated.

	Audited			Unaudited
	Year ended 31 December			3 months ended 31 March
	2010	2011	2012	2013
	RM 000			RM 000
Net cash generated from / (used in) operating activities	227,752	(137,109)	(37,196)	40,819
Net cash generated from / (used in) investing activities	101,415	(129,173)	(59,993)	(85,539)
Net cash (used in) / generated from financing activities	(48,977)	33,295	154,251	(42,610)
Currency translation difference	4,648	(1,856)	2,909	(251)
Cash and cash equivalents at the beginning of the year / period	63,985	348,823	113,980	173,951
Cash and cash equivalents at the end of the year / period	348,823	113,980	173,951	86,370

Please refer to Section 12 of this Prospectus for further discussion on our income statements and statements of comprehensive income and cash flow.

3.6 Summary of Pro Forma Consolidated Balance Sheet

Presented below is the consolidated balance sheet of our Group as at 31 December 2012 based on the following:

(i) The audited consolidated balance sheet of our Group as at 31 December 2012 as presented in the Accountant's Reports in Section 13 of this Prospectus; and

(ii) On a pro forma basis giving effect to the completion of our IPO and related transactions, including the conversion of all outstanding RCPS into Shares, the subdivision of every 3 ordinary shares of RM1.00 each into 20 Shares, the issue and allotment of 9,850,000 Shares assuming all the ESOS Options pursuant to the Proposed Initial Grant are exercised and the completion of the Public Issue with the receipt of the estimated gross proceeds of RM859.3 million based on an assumed Institutional Price and Final Retail Price of RM1.45 per Share and the utilisation of such proceeds as described under Section 4.10 of this Prospectus, as if all such transactions had occurred as of 31 December 2012.

The pro forma consolidated balance sheet has been prepared on the basis set out in the notes in Section 12.22 of this Prospectus, using the consolidated financial statements prepared in accordance with MFRS and in a manner consistent with both the format of the consolidated financial statements and the accounting policies of our Group.

The pro forma consolidated balance sheet should be read in conjunction with the Reporting Accountants' letter as set forth in Section 12.22 of this Prospectus.

3. SUMMARY (cont'd)

	Audited As at 31 December 2012 RM 000	Pro Forma After IPO RM 000
Non-Current Assets		
Property, plant and equipment	1,325,822	1,605,822
Deferred tax assets	234,840	234,840
Deposits on aircraft purchase	418,395	418,395
Other deposits	126,058	126,058
	2,105,115	2,385,115
Current Assets		
Inventories	806	806
Receivables and prepayments	130,786	130,786
Amounts due from related parties	15,738	15,738
Deposits, cash and bank balances	173,951	443,684
Tax recoverable	1,711	1,711
	322,992	592,725
Less: Current Liabilities		
Trade and other payables	254,004	254,004
Amounts due to related parties	5,929	5,929
Sales in advance	195,188	200,904
Borrowings	521,045	275,236
	976,166	736,073
Net current (liabilities) / assets	(653,174)	(143,348)
Less: Non-Current Liability		
Borrowings	871,211	831,211
NET ASSETS	580,730	1,410,556
Capital and Reserves attributable to the equity holders of the Company		
Share capital	266,667	357,034
Share premium	215,832	975,548
Currency translation reserve	(66)	(66)
Retained earnings	98,297	78,040
SHAREHOLDERS' EQUITY	580,730	1,410,556
Number of ordinary shares of RM1.00 each ('000)	224,000	N/A
Number of RCPS ('000)	42,667	N/A
Total share capital ('000)	266,667	N/A
Number of ordinary shares of RM0.15 each ('000)	1,493,333[1]	2,380,220
Net tangible assets attributable to equity holders of the Company[2] (RM 000)	580,730	1,410,556
Net tangible assets attributable to equity holders of the Company per ordinary share[3] (sen)	38.9	59.3
Net assets attributable to equity holders of the Company[4] (RM 000)	580,730	1,410,556
Net assets attributable to equity holders of the Company per ordinary share[5] (sen)	38.9	59.3

Notes:

N/A *Not applicable*

(1) *Number of ordinary shares illustrated is assumed to be retrospectively adjusted after completion of the subdivision of 224,000,001 shares on the basis of every 3 ordinary shares of RM1.00 each subdivided into 20 ordinary shares of RM0.15 each.*

(2) *Net tangible assets attributable to equity holders of the Company = Equity attributable to equity holders of the Company less intangible assets (if any).*

(3) *Net tangible assets attributable to equity holders of the Company per ordinary share = Net tangible assets attributable to equity holders of the Company divided by the number of ordinary shares of RM0.15 each.*

(4) *Net assets attributable to equity holders of the Company = Equity attributable to equity holders of the Company.*

(5) *Net assets attributable to equity holders of the Company per ordinary share = Equity attributable to equity holders of the Company divided by the number of ordinary shares of RM0.15 each.*

Please refer to Section 12 of this Prospectus for further details on our financial position.

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3.7 Capitalisation and Indebtedness

The following information should be read in conjunction with the Reporting Accountants' letter and the pro forma consolidated balance sheet as at 31 December 2012 and the notes thereon set forth in Section 12.22 of this Prospectus and the Accountants' Report set forth in Section 13 of this Prospectus.

The table below sets out the deposits, cash and bank balances as well as capitalisation and indebtedness of our Group based on the audited consolidated balance sheet of our Group as at 31 December 2012 and based on the pro forma consolidated balance sheet as at 31 December 2012 set out in Section 12.21 of this Prospectus, on the assumption that our IPO and utilisation of proceeds therefrom had occurred on 31 December 2012. The pro forma financial information below does not represent our Group's actual capitalisation and indebtedness as at 31 December 2012 and is provided for information purposes only. The total indebtedness of our Group is not guaranteed by any third party.

	Audited	Pro Forma
	As at 31 December 2012	After IPO
	RM 000	
Cash and cash equivalents[1]	173,951	443,684[4]
Indebtedness		
Short term debt		
Secured		
Term loans	100,027	100,027
Time loan	48,000	16,000
Unsecured		
Revolving credit	351,705	151,709
Commodity Murabahah Term Financing	21,313	7,500
	521,045	275,236
Long term debt		
Secured		
Term loans	739,336	739,336
Unsecured		
Revolving credit	131,875	91,875
	871,211	831,211
Total indebtedness[2]	1,392,256	1,106,447
Total shareholders' equity / capitalisation	580,730	1,410,556
Total capitalisation and indebtedness	1,972,986	2,517,003
Gearing ratio (times)[3]	2.4	0.8

Notes:

(1) Cash and cash equivalents comprise deposits, cash and bank balances.

(2) Total indebtedness includes short term debts and long term debts.

(3) Computed based on total debts divided by total shareholders' equity. Total debts are calculated as total borrowings (including "short term and long term borrowings" as shown in our Group's consolidated balance sheet).

(4) Comprised adjustments for gross proceeds from Public Issue of RM859.3 million less utilisation for capital expenditure of RM280.0 million, repayment of borrowings of RM285.8 million and estimated listing expenses of RM38.0 million and proceeds from the exercise of the Proposed Initial Grant pursuant to the ESOS of RM14.3 million.

3.8 Particulars of our IPO

Our IPO consists of the Institutional Offering and the Retail Offering, totalling up to 790,123,500 IPO Shares. For avoidance of doubt, our IPO Shares offered under the Institutional Offering and Retail Offering do not include the Shares to be offered under the Over-allotment Option.

3.8.1 Institutional Offering

Institutional Offering of up to 538,011,800 IPO Shares, representing approximately 22.7% of the enlarged issued and paid-up share capital of our Company, at the Institutional Price, subject to clawback and reallocation provisions, to be allocated in the following manner:

(i) up to 197,530,900 Offer Shares and 79,740,200 Issue Shares to Malaysian institutional and selected investors and foreign institutional and selected investors at the Institutional Price; and

(ii) 260,740,700 Issue Shares to Bumiputera institutional and selected investors approved by the MITI at the Institutional Price.

3.8.2 Retail Offering

Retail Offering of 252,111,700 Issue Shares, representing approximately 10.6% of the enlarged issued and paid-up share capital of our Company, at the Retail Price, payable in full upon application, subject to clawback and reallocation provisions, to be allocated in the following manner:

(i) 52,111,700 Issue Shares, representing approximately 2.1% of the enlarged issued and paid-up share capital of our Company, made available to the Eligible Persons;

(ii) 50,000,000 Issue Shares, representing approximately 2.1% of the enlarged issued and paid-up share capital of our Company, made available to the Eligible Passengers; and

(iii) 150,000,000 Issue Shares, representing approximately 6.4% of the enlarged issued and paid-up share capital of our Company, made available to the Malaysian public, of which 50% are reserved for subscription by Bumiputera public.

The Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date, and will be equal to the Institutional Price (subject that it will not exceed the Retail Price nor be lower than the par value of our Shares).

Please refer to Section 4 of this Prospectus for further information on the particulars of our IPO.

3.9 Utilisation of Proceeds

The Offer for Sale is expected to raise proceeds totalling RM286.4[(1)] million which will accrue entirely to the Selling Shareholders.

The gross proceeds from the Public Issue of RM859.3[(2)] million are expected to be utilised in the following manner:

Details of utilisation	Estimated timeframe for utilisation upon Listing	RM 000	%
Capital expenditure	Within 24 months	280,000	32.6
Repayment of bank borrowings	Within 3 months	285,809	33.3
General working capital	Within 12 months	255,450	29.7
Estimated listing expenses	Within 6 months	38,000	4.4
Total gross proceeds		**859,259**	**100.0**

Notes:

(1) We have assumed the Institutional Price to be RM1.45 per Share in arriving at this figure.

(2) We have assumed the Institutional Price and the Final Retail Price to be RM1.45 per Share in arriving at this figure.

Please refer to Section 4.10 of this Prospectus for further information on the utilisation of proceeds from our IPO.

3.10 Dividend Policy

Presently, our Company does not have any formal dividend policy. We have not paid any dividends to our shareholders since the incorporation of our Company and we are unlikely to pay any dividends in the immediate future due to our expected growth and expansion plans. Notwithstanding our current financial position, going forward, our Board intends to adopt a progressive dividend policy once we commence dividend payments, whereby we seek to increase dividend payouts in line with increases in our profitability. This is however, subject to the following factors and in the absence of any circumstances which may affect or restrict our ability to pay dividends.

The declaration of interim dividends and the recommendation of any final dividends are subject to the discretion of our Board and any final dividend proposed is subject to our shareholders' approval.

Our ability to pay future dividends to our shareholders is subject to various factors including but not limited to our financial performance, cash flow requirements, availability of distributable reserves and capital expenditure plans. The payment of dividends may also be limited by restrictive covenants contained in our current and future financing agreements.

Please refer to Section 5.3.4 of this Prospectus for further details on the factors which may affect or restrict our ability to pay dividends.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING

Our IPO is subject to the terms and conditions of this Prospectus and upon acceptance, the IPO Shares are expected to be allocated / transferred in the manner described below, subject to the clawback and reallocation provisions and the Over-allotment Option as set out in Sections 4.3.6 and 4.3.7 of this Prospectus, respectively.

4.1 Opening and Closing of Applications

Applications for our IPO Shares under the Retail Offering will open at 10:00 a.m. on 10 June 2013 and will remain open until 5:00 p.m. on 19 June 2013 or such other date or dates as our Directors and the Joint Managing Underwriters in their absolute discretion may mutually decide.

4.2 Indicative Timetable

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

Events	Date
Opening of Institutional Offering	10 June 2013
Issuance of Prospectus/ Opening of Retail Offering	10:00 a.m., 10 June 2013
Closing of Retail Offering	5:00 p.m., 19 June 2013
Closing of Institutional Offering	24 June 2013
Price Determination Date	24 June 2013
Balloting of applications for the Issue Shares pursuant to the Retail Offering	24 June 2013
Allotment/ Transfer of our IPO Shares to successful applicants	9 July 2013
Listing	10 July 2013

The Institutional Offering will close on the date stated above or such other date as our Directors, the Selling Shareholders and the Joint Global Coordinators may decide in their absolute discretion. The applications for the Retail Offering will close at the time and date stated above subject that our Directors and the Joint Managing Underwriters may decide in their absolute discretion to extend the closing time and date for applications to any later time(s) and/or date(s).

In the event that the closing date and/or time of either the Institutional Offering or the Retail Offering is extended, the Price Determination Date and dates for the balloting and allotment of the Issue Shares and the transfer of the Offer Shares and our Listing will be extended accordingly. We will announce any extension in a widely circulated Bahasa Malaysia language daily newspaper and a widely circulated English language daily newspaper within Malaysia.

4.3 Particulars of our IPO

Our IPO consists of the Institutional Offering and the Retail Offering, totalling up to 790,123,500 IPO Shares. For avoidance of doubt, our IPO Shares offered under the Institutional Offering and Retail Offering do not include the Shares to be offered under the Over-allotment Option.

4.3.1 Institutional Offering

Institutional Offering of up to 538,011,800 IPO Shares, representing approximately 22.7% of the enlarged issued and paid-up share capital of our Company, at the Institutional Price, subject to clawback and reallocation provisions, to be allocated in the following manner:

(i) up to 197,530,900 Offer Shares and 79,740,200 Issue Shares to Malaysian institutional and selected investors and foreign institutional and selected investors at the Institutional Price; and

(ii) 260,740,700 Issue Shares to Bumiputera institutional and selected investors approved by the MITI at the Institutional Price.

4.3.2 Retail Offering

Retail Offering of 252,111,700 Issue Shares, representing approximately 10.6% of the enlarged issued and paid-up share capital of our Company, at the Retail Price, payable in full upon application, subject to clawback and reallocation provisions, to be allocated in the following manner:

(i) 52,111,700 Issue Shares, representing approximately 2.1% of the enlarged issued and paid-up share capital of our Company, made available to the Eligible Persons;

(ii) 50,000,000 Issue Shares, representing approximately 2.1% of the enlarged issued and paid-up share capital of our Company, made available to the Eligible Passengers; and

(iii) 150,000,000 Issue Shares, representing approximately 6.4% of the enlarged issued and paid-up share capital of our Company, made available to the Malaysian public, of which 50% are reserved for subscription by Bumiputera public.

The Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date, and will be equal to the Institutional Price (subject that it will not exceed the Retail Price nor be lower than the par value of our Shares).

In the event the Final Retail Price is less than the Retail Price, the difference will be refunded to successful applicants of the Retail Offering, without any interest thereon. Refunds in the form of cheques will be despatched to the successful applicants or by crediting into the accounts of the successful applicants at their own risk.

Any Issue Shares not taken up by investors under Sections 4.3.2(i), (ii) and (iii) respectively, will be made available for application by investors under Section 4.3.1(i) with any remaining amounts under the Retail Offering thereafter underwritten by the Joint Underwriters, subject to the clawback and reallocation provisions and the Over-allotment Option in Sections 4.3.6 and 4.3.7 of this Prospectus, respectively.

In the event of significant excess application received under Section 4.3.2(iii) above, and subject to mutual agreement between the Joint Global Coordinators and our Company, our IPO Shares under Section 4.3.2(iii) may be increased up to a maximum of an additional 277,271,100 IPO Shares, representing approximately 11.7% of the enlarged issued and paid-up share capital of our Company. The increase in IPO Shares shall be reallocated by the same number of IPO Shares from those available under Section 4.3.1(i) above, with corresponding decrease in Section 4.3.1(i). In considering whether to increase the Retail Offering, several factors need to be taken into account including, amongst others, the level of retail demand, institutional demand, the profile of institutional investors, recent IPO performance as well as the general market condition.

4.3.3 Summary of IPO Shares to be Allocated

A summary of our IPO Shares allocated under the Retail Offering and the Institutional Offering is indicated in the table below (subject to clawback and reallocation provisions and the Over-allotment Option) in the following manner:

	Offer Shares		Issue Shares		Total	
	No. of Shares	% of enlarged share capital[(i)]	No. of Shares	% of enlarged share capital[(i)]	No. of Shares	% of enlarged share capital[(i)]
Retail Offering:						
Malaysian public (via balloting)						
- Bumiputera	-	-	75,000,000	3.2	75,000,000	3.2
- Non-Bumiputera	-	-	75,000,000	3.2	75,000,000	3.2
Eligible Persons	-	-	52,111,700	2.1	52,111,700	2.1
Eligible Passengers	-	-	50,000,000	2.1	50,000,000	2.1
Total	**-**	**-**	**252,111,700**	**10.6**	**252,111,700**	**10.6**
Institutional Offering:						
Bumiputera investors approved by MITI	-	-	260,740,700	11.0	260,740,700	11.0
Other Malaysian and foreign institutional and selected investors	197,530,900	8.3	79,740,200	3.4	277,271,100	11.7
Total	**197,530,900**	**8.3**	**340,480,900**	**14.4**	**538,011,800**	**22.7**
Grand Total	**197,530,900**	**8.3**	**592,592,600**	**25.0**	**790,123,500**	**33.3**

Note:

(i) *Based on the enlarged issued and paid-up share capital of 2,370,370,387 Shares after the conversion of all the 42,666,667 RCPS by AirAsia Berhad into 42,666,667 new ordinary shares of RM1.00 each on 10 May 2013 (before the subdivision of shares from a par value of RM1.00 to RM0.15 which was subsequently completed on 13 May 2013) and after taking into account the Public Issue.*

The completion of the Institutional Offering and Retail Offering are inter-conditional. Our IPO is subject to the public spread requirement as per the Listing Requirements.

4.3.4 Details of Allocation to the Eligible Persons

A summary of allocation of 52,111,700 Issue Shares to the Eligible Persons is set out below:

Eligibility	Number of persons	Aggregate number of Issue Shares allocated
Eligible directors of our Group[(i)]	12	1,200,000
Eligible employees of our Group[(ii)]	Up to 1,440	45,553,300
Eligible persons who have contributed to the success of our Group[(iii)]	Up to 100	5,358,400
Total	**Up to 1,552**	**52,111,700**

Notes:

(i) *The criteria for allocation to our eligible directors are based on, amongst others, their respective roles, responsibilities and contribution to our Company. Each of our Directors (including alternate Directors) shall be allocated 100,000 Issue Shares for subscription.*

(ii) *The criteria for allocation to the eligible employees are based on, amongst others, staff grade, length of service and performance subject to completed minimum services of 6 months as at the date of this Prospectus. Our Board retains the discretion to determine the eligibility criteria of the eligible employees.*

The number of Issue Shares to be allocated to our key management is as follows:

Key management	***No. of Issue Shares to be allocated***
Azran Bin Osman Rani	*10,766,700*
Moses Devanayagam	*250,000*
Senthil Balan A/L Danapalan	*3,433,300*
Azhanudin Shah Bin Azman	*250,000*
Shelina Binti Razaly Wahi	*5,433,300*
Noraesyah Yvonne Binti Abdullah	*500,000*
Nadiah Tan Binti Abdullah	*250,000*
Total	***20,883,300***

(iii) *The criteria for allocation to Eligible Persons are based on, amongst others, their respective contribution to the success of our Group, and the nature, terms and duration of their respective business relationships with our Group.*

4.3.5 Details of Allocation to the Eligible Passengers

In recognition and appreciation of the support from our customers who had flown with us before, a total of 50,000,000 Issue Shares have been set aside under a restricted ballot for the Eligible Passengers.

Fee paying passengers who (i) have flown on our flights within 24 months prior to the date of this Prospectus; (ii) are BIG Members at the point of application for such Issue Shares; and (iii) are deemed to be Malaysian public individuals, shall be entitled to apply for the Issue Shares set aside under this category.

4.3.6 Clawback and Reallocation

The Retail Offering and Institutional Offering shall be subject to the following clawback and reallocation provisions:

(i) if our IPO Shares allocated to the Eligible Persons and/or the Eligible Passengers are not fully taken up, and there is a corresponding over-application by the Institutional Offering and/or the Malaysian public under the Retail Offering, our IPO Shares which are not taken up will be allocated to the Institutional Offering or the Malaysian public under the Retail Offering or a combination of both, at the discretion of the Joint Global Coordinators and our Company.

(ii) if our IPO Shares allocated to the Bumiputera investors approved by MITI are not fully taken up, and there is a corresponding over-application by the Malaysian institutional and selected investors and foreign institutional and selected investors under the Institutional Offering, our IPO Shares which are not taken up will be allocated to Malaysian institutional and selected investors and foreign institutional and selected investors under the Institutional Offering;

(iii) if there is an under-application in the Institutional Offering, and there is a corresponding over-application in the Retail Offering, subject to Sections 4.3.6(i) and (ii) above, our IPO Shares may be clawed back from the Institutional Offering and allocated to the Retail Offering; and

(iv) if there is an under-application in the Retail Offering and there is a corresponding over-application in the Institutional Offering, our IPO Shares will be clawed back from the Retail Offering and allocated to the Institutional Offering.

In the event of significant excess application received from the Malaysian public under the Retail Offering, and subject to mutual agreement between the Joint Global Coordinators and our Company, the Retail Offering for the Malaysian public as set out under Section 4.3.2(iii) above may be increased by up to a maximum of an additional 277,271,100 IPO Shares, by reallocating the same number of IPO Shares from those available under Section 4.3.1(i) above, with corresponding decrease in Section 4.3.1(i).

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4.3.7 Over-allotment Option

Orix Airline Holdings Limited and Manara Malaysia I Limited, who are also Selling Shareholders, may grant an Over-allotment Option to the Stabilising Manager (on behalf of the Joint Bookrunners and Co-Lead Managers), and may appoint the Stabilising Manager to undertake any price stabilisation actions. The Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may at their absolute discretion, over-allot Shares (on behalf of the Joint Bookrunners and Co-Lead Managers) and subsequent thereto, effect transactions which may stabilise or maintain the market price of our Shares at levels that might not otherwise prevail in the open market. Such transactions consist of bids or purchases to peg, fix or maintain the price of our Shares. If the Stabilising Manager creates a short position in our Shares in connection with the Institutional Offering, the Stabilising Manager may reduce that short position by purchasing our Shares in the open market.

The Stabilising Manager may also elect to reduce any short positions by exercising all or part of the Over-allotment Option. If granted, the Over-allotment Option will be exercisable in whole or in part by the Stabilising Manager, on one or more occasions, by giving written notice to Orix Airline Holdings Limited and Manara Malaysia I Limited at any time, within 30 days from the date of Listing to purchase from Orix Airline Holdings Limited and Manara Malaysia I Limited up to an aggregate of 118,518,525 Shares at the Institutional Price for each Share, representing up to 15% of the total number of IPO Shares offered, solely for purposes of covering over-allotments of our Shares (if any).

Subject to there being an over-allotment, the Stabilising Manager will (on behalf of the Joint Bookrunners and Co-Lead Managers) enter into the Share Lending Agreement with Orix Airline Holdings Limited and Manara Malaysia I Limited to borrow up to 118,518,525 Shares to cover over-allotments. Any Shares that may be borrowed by the Stabilising Manager under the Share Lending Agreement will be returned by the Stabilising Manager to Orix Airline Holdings Limited and Manara Malaysia I Limited either through the purchase of our Shares in the open market by the Stabilising Manager in the conduct of stabilisation activities or through the exercise of the Over-allotment Option by the Stabilising Manager, or a combination of both. The exercise of the Over-allotment Option will not increase the total number of Shares issued.

Purchases of a security to stabilise the price or to cover the over-allotment may cause the price of the security to be higher than it might be in the absence of these purchases. Such transactions may be effected on the Main Market and in other jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws and regulations, including the CMSA and any regulations thereunder. The number of Shares that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may buy to undertake stabilising action, shall not exceed an aggregate of 118,518,525 Shares, representing up to 15% of the total number of IPO Shares offered. However, there is no obligation for the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) to undertake any such stabilising action. Such stabilising actions may commence on or after the commencement of trading of our Shares on the Main Market and, if commenced, may be discontinued at any time and cannot be effected after the earliest of (i) the date falling 30 days from the commencement of trading of our Shares on the Main Market; or (ii) the date when the Stabilising Manager has bought, on the Main Market, an aggregate of 118,518,525 Shares representing up to 15% of the total number of IPO Shares offered to undertake stabilising action.

Neither our Company, nor Orix Airline Holdings Limited and Manara Malaysia I Limited or the Stabilising Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our Shares. In addition, neither our Company, nor Orix Airline Holdings Limited and Manara Malaysia I Limited or the Stabilising Manager makes any representation that the Stabilising Manager will engage in such transactions, or that such transactions once commenced, will not be discontinued without notice (unless such notice is required by law).

4.3.8 Share Capital

Upon the completion of our IPO, our share capital would be as follows:

	No. of Shares	RM
Authorised	3,333,333,333	500,000,000
Issued and fully paid-up		
Issued and fully paid-up as at the date of this Prospectus	1,777,777,787	266,666,668
To be issued and fully paid-up pursuant to the Public Issue	592,592,600	88,888,890
Enlarged share capital upon Listing	**2,370,370,387**	**355,555,558**

Note:

The Offer for Sale would not have any effect on our issued and paid-up share capital as the Offer Shares are already in existence prior to our IPO.

Based on the Retail Price of RM1.45 per IPO Share, the total market capitalisation of our Company upon the Listing shall be approximately RM3.4 billion.

We have implemented an ESOS for up to 10% of our total issued and paid-up share capital (excluding treasury shares) at any point in time during the existence of the scheme, further details of which are set out in Section 4.5 of this Prospectus.

4.3.9 Classes of Shares and Ranking

The Issue Shares and the new Shares issued pursuant to the exercise of the ESOS Options will, upon allotment and issue, rank equally in all respects with our existing Shares including voting rights and will be entitled to all rights and dividends and distribution that may be declared subsequent to the date(s) of allotment.

The Offer Shares will rank equally in all respects with our existing Shares including voting rights and will be entitled to all rights and dividends and distribution that may be declared subsequent to the date(s) of allotment.

Upon allotment and issue and subject to any special rights attaching to any shares which we may issue in the future, the shareholders of our Company shall, in proportion to the amount of paid-up on the Shares held by them, be entitled to share in the profits paid by us in the form of dividends and other distributions and any surplus in the event of our liquidation, in accordance with our Articles.

At every general meeting, each of our Company's shareholders shall be entitled to vote in person, by proxy or by attorney or other duly authorised representative and on a show of hands, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have 1 vote for each Share held. A proxy may but need not be a member of our Company.

Our Articles prescribe a 45.0% limit on non-Malaysian ownership of our Company's issued and paid up share capital. A foreign shareholder whose acquisition of Shares is determined by our Board to have resulted in this limit being exceeded, taking into account the time of acquisition of such Shares, shall be entitled to all rights, benefits, powers and privileges and be subject to all liabilities, duties and obligations in respect of and arising from such Shares, except for the voting rights in respect thereof. The voting rights of the affected Shares will be automatically reinstated when the foreign ownership limit has been restored.

Please refer to Section 15.3 on the "Limitation on the Right to Hold Securities and/or Exercise Voting Rights" of this Prospectus for further information.

4.3.10 Minimum Subscription

Notwithstanding that there is no minimum subscription of our IPO Shares, in order to comply with the public spread requirements of Bursa Securities, the minimum subscription in terms of the number of shares to be acquired will be the number of Shares required to be held by our Company's public shareholders in compliance with the public spread requirements being 25% of our enlarged issued and paid-up share capital (excluding treasury shares) as prescribed by Bursa Securities.

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4. DETAILS OF OUR INITIAL PUBLIC OFFERING (cont'd)

4.4 Selling Shareholders

As at the date of this Prospectus, the Selling Shareholders are the beneficial owners (as indicated below) of 74.0% of the issued and paid-up share capital of our Company before our IPO. The Selling Shareholders (in the numbers indicated against each of their names below) will sell an aggregate of 197,530,900 Shares as part of our IPO. Consequently, upon completion of our IPO, the Selling Shareholders will hold an aggregate of 1,118,024,660 Shares, representing 47.2% of the enlarged issued and paid-up share capital of our Company.

The table below indicates the shareholding of each respective Selling Shareholder before and after our IPO exercise.

Shareholders	Material relationship with our Group	Address	Before our IPO[(i)]		Shares offered pursuant to the Offer for Sale[(ii)]		After our IPO[(ii)]	
			No. of Shares	%	No. of Shares	%	No. of Shares	%
Aero Ventures Sdn Bhd	Promoter and substantial shareholder	B-13-15, Level 13 Menara Prima Tower B Jalan PJU 1/39 Dataran Prima 47301 Petaling Jaya Selangor Darul Ehsan Malaysia	928,618,666	52.2	111,733,223	4.7	816,885,443	34.4
Orix Airline Holdings Limited	Substantial shareholder	2nd Floor Booterstown Hall Booterstown Avenue Booterstown, Co Dublin Ireland	193,468,447	10.9	42,898,838	1.8	150,569,609	6.4
Manara Malaysia I Limited	Substantial shareholder	P.O. Box 309GT, Ugland House South Church Street George Town, Grand Cayman Cayman Islands	193,468,447	10.9	42,898,839	1.8	150,569,608	6.4
Total			**1,315,555,560**	**74.0**	**197,530,900**	**8.3**	**1,118,024,660**	**47.2**

Notes:

(i) *Based on the existing issued and paid-up share capital of 1,777,777,787 Shares before the Public Issue but after the conversion of all the 42,666,667 RCPS by AirAsia Berhad into 42,666,667 new ordinary shares of RM1.00 each on 10 May 2013 (before the subdivision of shares from a par value of RM1.00 to RM0.15 which was subsequently completed on 13 May 2013).*

(ii) *Based on the enlarged issued and paid-up share capital of 2,370,370,387 Shares after the conversion of all the 42,666,667 RCPS by AirAsia Berhad into 42,666,667 new ordinary shares of RM1.00 each on 10 May 2013 (before the subdivision of shares from a par value of RM1.00 to RM0.15 which was subsequently completed on 13 May 2013) and after taking into account the Public Issue.*

4.5 ESOS

In conjunction with our Listing, we have implemented an ESOS, further details of which are set out as follows and in the By-Laws as set out in Annexure B of this Prospectus.

Prior to our Listing, a total of up to 9,850,000 ESOS Options are proposed to be granted to Eligible Employees. Details of the Proposed Initial Grant to our key management are as follows:

Details	No. of ESOS Options proposed to be granted
Moses Devanayagam	250,000
Senthil Balan A/L Danapalan	1,000,000
Azhanudin Shah Bin Azman	1,000,000
Noraesyah Yvonne Binti Abdullah	1,000,000
Nadiah Tan Binti Abdullah	1,000,000
Total	**4,250,000**

4.5.1 Maximum Number of Shares Offered

Pursuant to our ESOS, the maximum number of new Shares that may be issued (under the ESOS Options granted to the Eligible Directors and Eligible Employees), shall not exceed in aggregate, 10% of our total issued and paid-up share capital (excluding treasury shares) at any point in time during the existence of our ESOS.

4.5.2 Rationale and Objectives of the ESOS

The implementation of our ESOS primarily serves to recognise the contribution of the Eligible Directors and Eligible Employees whose services are valued and considered vital to the operations and continued growth of our Group and to inculcate a greater sense of belonging and dedication as the Eligible Directors and Eligible Employees are given the opportunity to participate directly in the equity of our Company.

4.5.3 ESOS Options

The ESOS Committee to be appointed and duly authorised by our Board (and governed by the By-Laws) may, at its absolute discretion, offer such number of ESOS Options to the Eligible Directors and Eligible Employees during the subsistence of our 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, our By-Laws and any laws, regulations and guidelines issued by other relevant authorities.

An Eligible Director or 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.

The subscription price, subject to any adjustments in accordance with our By-Laws, which is payable when an Eligible Person subscribes for new Shares pursuant to the ESOS Option in respect of any offer which is made in conjunction with or prior to our Company's listing on the Main Market shall be the Final Retail Price.

Subject to any adjustments in accordance with our By-Laws, the subscription price to which an Eligible Director or Eligible Employee is entitled to take up the new Shares pursuant to the ESOS Options granted shall be the higher of:

(i) the 5-day weighted average market price of our Shares immediately preceding the date of offer, with a discount of not more than 10% at our ESOS Committee's discretion; or

(ii) par value of our Shares.

4.5.4 Duration of the ESOS

Our ESOS shall be in force for a period of 5 years which may be extended or renewed, as the case may be, for a further period of up to 5 years, at the sole and absolute discretion of our Board upon recommendation by our ESOS Committee, provided that the initial ESOS period and such extension of our ESOS made pursuant to our By-Laws shall not, in aggregate, exceed a duration of 10 years from the date our initial ESOS takes effect.

4.5.5 Ranking of the New Shares Arising From the Exercise of the ESOS Options

The new Shares arising from the exercise of the ESOS Options shall, upon allotment and issuance, rank *parri passu* in all respects with our then existing Shares, except that the new Shares will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the new Shares.

4.6 The Inaugural Benefit

All successful investors of our IPO from the Malaysian public and Eligible Passengers allocation of the Retail Offering will be entitled to take part in and enjoy the benefits accorded under the Inaugural Benefit subject to being eligible and in accordance with its terms and conditions set out in Annexure C of this Prospectus. The Inaugural Benefit is introduced under our Shareholders' Benefit Programme which may include other forms of benefits to be introduced in the future. Please refer to Section 7.7.2 of this Prospectus for more details regarding our Shareholders' Benefit Programme.

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4.7 Basis of Arriving at the Institutional Price, Retail Price and the Final Retail Price

4.7.1 Institutional Price

The Institutional Price will be determined by a bookbuilding process wherein prospective institutional investors will be invited to bid for portions of the Institutional Offering by specifying the number of Issue Shares they would be prepared to acquire and the price they would be prepared to pay for such IPO Shares. This bookbuilding process commenced on 10 June 2013 and will end on 24 June 2013 or such time, date or dates as our Directors, the Selling Shareholders and the Joint Global Coordinators in their absolute discretion may decide. Upon the completion of the bookbuilding process, the Institutional Price will be fixed between our Directors and the Selling Shareholders in consultation with the Joint Global Coordinators and the Joint Bookrunners on the Price Determination Date.

4.7.2 Retail Price

The Retail Price of RM1.45 per Issue Share was determined and agreed upon between our Directors, Principal Adviser, Joint Global Coordinators, Joint Bookrunners and the Joint Managing Underwriters, after taking into consideration the following factors:

(i) our financial performance and operating history as described in Section 12 of this Prospectus;

(ii) our competitive strengths, business strategies and future plans as outlined in Sections 7.2 and 7.3 of this Prospectus;

(iii) the future outlook of the industry in which we operate, as described in Section 8 of this Prospectus; and

(iv) the prevailing market conditions which include among others, current market trends and investors' sentiments.

The Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date, and will be equal to the Institutional Price, subject that it will not exceed the Retail Price, nor lower than the par value of our Shares.

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded to successful applicants of the Retail Offering, without any interest thereon. Please refer to Section 4.7.3 for further details on the refund mechanism.

The Final Retail Price and the Institutional Price are expected to be announced within 2 Market Days from the Price Determination Date in widely circulated Bahasa Malaysia and English language daily newspapers within Malaysia. In addition, all successful applicants will be given written notice of the Final Retail Price and the Institutional Price, together with notices of allotment.

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4.7.3 Refund Mechanism

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded to successful applicants of the Retail Offering, without any interest thereon. The refund in the form of cheques will be despatched by ordinary post to the successful applicants at their address as stated in Bursa Depository's records for applications made via the Application Form or by crediting into the accounts of the successful applicants for applications made via the Electronic Share Application or the Internet Share Application, within 2 Market Days after receiving confirmation from the Issuing House.

Prior to our IPO, there has been no trading market for our Shares within or outside Malaysia. You are reminded to consider carefully the risk factors as set out in Section 5 of this Prospectus.

4.8 Objectives of our IPO

The objectives of our IPO are as follows:

(i) to create a cost-effective fund-raising platform and financial flexibility by providing our Company access to the Malaysian equity capital market;

(ii) to enable the creation of a liquid market in our Shares;

(iii) to enhance our stature in the aviation industry and expand our market position;

(iv) to provide an opportunity for the investing community including Bumiputera investors, the Eligible Persons and other institutional selected investors to become our shareholders and to participate in our Company's future performance; and

(v) to raise funds for the purposes as set out in Section 4.10 of this Prospectus.

4.9 Dilution

Dilution is the amount by which the price paid by retail and institutional investors for our Shares exceeds our net tangible assets per Share after giving effect to our IPO. Our latest available audited consolidated net tangible assets per Share as at 31 December 2012 was RM0.39 per Share.

Once the issuance of 592,592,600 IPO Shares is effected and after further adjusting for the estimated listing expenses, our pro forma consolidated net tangible assets per Share as at 31 December 2012 after taking into account our Company's enlarged and issued paid-up share capital of 2,380,220,387 Shares (taking into account the issue and allotment of 9,850,000 Shares assuming all the ESOS Options pursuant to the Proposed Initial Grant are exercised) would be RM0.59 per Share. This represents an immediate increase in net tangible assets per Share of RM0.20 to our existing shareholders and an immediate dilution in net tangible assets per Share of RM0.86, representing 59.3% of the Retail Price and the Institutional Price to our retail and institutional investors, on the assumption that the Institutional Price and the Final Retail Price will be equal to the Retail Price. Please see Section 12.21 of this Prospectus for further details of our net tangible assets per Share figures.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING (cont'd)

The following table illustrates such dilution on a per Share basis on the assumption that the Retail Price is equal to the Final Retail Price and the Institutional Price.

	RM
Retail Price	1.45
Institutional Price	1.45
Net tangible assets per Share as at 31 December 2012, before adjusting for our IPO	0.39
Net tangible assets per Share as at 31 December 2012, after adjusting for our IPO	0.59
Increase in net tangible assets per Share to existing shareholders	0.20
Dilution in net tangible assets per Share to retail investors	0.86
Dilution in net tangible assets per Share to institutional investors	0.86

Save as disclosed below, none of our substantial shareholders, Directors or key management, or persons connected to them had acquired and/or subscribed for our Shares in the past 3 years up to the LPD:

Substantial shareholders/ Directors	No. of Shares(1)	Total Consideration (RM)	Average price per Share (RM)
Tan Sri Dr. Anthony Francis Fernandes	35,223,907	14,221,103(2)	0.40(2)
Dato' Kamarudin Bin Meranun	66,356,360	26,790,344(2)	0.40(2)
Dato' Seri Kalimullah Bin Masheerul Hassan	16,070,447	6,488,192(2)	0.40(2)
Lim Kian Onn	16,070,447	6,488,192(2)	0.40(2)
AirAsia Berhad	41,686,127	16,830,121(2)	0.40(2)
Aero Ventures Sdn Bhd	395,285,333	59,292,800	0.15
Orix Airline Holdings Limited	82,357,333	12,353,600	0.15
Manara Malaysia I Limited	82,357,333	12,353,600	0.15

Notes:

(1) After taking into account the subdivision of shares from a par value of RM1.00 to RM0.15 which was subsequently completed on 13 May 2013.

(2) Translated based on the exchange rate of USD1.00 : RM3.19 as at 28 June 2012, being the date of transaction.

4.10 Utilisation of Proceeds

The Offer for Sale is expected to raise proceeds totalling RM286.4[1] million which will accrue entirely to the Selling Shareholders.

The gross proceeds from the Public Issue of RM859.3[2] million are expected to be utilised in the following manner:

Details of utilisation	Estimated timeframe for utilisation upon Listing	RM 000	%
Capital expenditure[3]	Within 24 months	280,000	32.6
Repayment of bank borrowings[4]	Within 3 months	285,809	33.3
General working capital[5]	Within 12 months	255,450	29.7
Estimated listing expenses[6]	Within 6 months	38,000	4.4
Total gross proceeds		**859,259**	**100.0**

Notes:

(1) We have assumed the Institutional Price to be RM1.45 per Share in arriving at this figure.

(2) We have assumed the Institutional Price and the Final Retail Price to be RM1.45 per Share in arriving at this figure.

(3) Our capital expenditure requirements are principally associated with the acquisition of engineering and aircraft related equipment and parts, as well as the expansion cost for the setting up of our new hubs going forward, details of which are as set out below:

	RM 000
Engineering equipment, tools and spare parts	*80,000*
Aircraft spare parts	*100,000*
Expansion cost for setting up of new hubs	*100,000*
Total planned capital expenditure	***280,000***

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(4) *The proposed repayment of bank borrowings is as set out below. The bank borrowings were selected for repayment after taking into consideration the interest rates, as well as the tenure of the facilities which are to be settled via the IPO proceeds, namely the Commodity Murabahah term financing, the RM100.0 million revolving credit and the time loan. The interest savings from the repayment of these borrowings are set out under (ii) below.*

Facility	***Amount outstanding as the LPD RM 000***	***Proposed repayment RM 000***	***Interest rate (% per annum) / maturity***	***Purpose of borrowing***
Commodity Murabahah Term Financing (Islamic)	*13,813*	*13,813*	*6.75% / 19 September 2013*	*Refinancing of an existing syndicated facility from 2 lenders and for general working capital requirements*
Short term revolving credit (Islamic)	*40,000*	*40,000*	*6.48% / 6 December 2016*	*General working capital requirements*
Revolving credit	*100,000*	*100,000*	*6.67% / 30 June 2013**	*General working capital requirements*
Time loan	*32,000*	*32,000*	*4.77% / 2 September 2013*	*Payment of security deposits in aircraft operating leases and general corporate purpose requirements*
Revolving credit	*99,996*	*99,996*	*4.98% / October 2013*	*Working capital requirements with regards to fuel payments*
Total		***285,809***		

* *We have subsequently applied for an extension of the maturity of this facility to 31 July 2013.*

(5) *Proceeds in excess of the amounts allocated for listing expenses (which may be in excess or less than the estimated amount) will be utilised for general working capital requirements of our Group, including financing our daily operations and operating expenses, which include sales and marketing expenses, general administrative and other operating expenses, as well as for general corporate purposes. Conversely, any shortfall in proceeds raised will be adjusted accordingly to the general working capital requirements.*

(6) *The expenses of the Public Issue to be borne by us are estimated to be RM38.0 million which will comprise the following:*

	RM 000
Estimated professional fees	*9,161*
*Brokerage, underwriting commission and placement fees**	*23,309*
Marketing related expenses such as travel and roadshow expenses incurred in connection with the IPO	*2,628*
Other fees and miscellaneous expenses and contingencies	*2,902*
Total estimated listing expenses	***38,000***

* *The fees to be borne by the Selling Shareholders and the Over-Allotment Option provider which are excluded from the above, is estimated to be up to RM7.2 million and up to RM4.3 million, respectively.*

If the actual expenses are higher than estimated, the deficit will be funded out of the amount allocated for general working capital. However, if the actual expenses are lower than estimated, the excess will be utilised for general working capital purposes of our Group.

Our utilisation of the proceeds is expected to have the following financial impact on our Group:

(i) Fleet Expansion

We intend to utilise part of the proceeds from our IPO to repay a portion of our borrowings, including that used to finance the security deposits paid in respect of additional aircraft deliveries under operating leases in 2013 and 2014 as described above. We believe the expansion of our fleet is expected to improve our financial performance over the coming years.

(ii) Interest Savings

Part of the proceeds from the Public Issue will be used to repay a portion of our outstanding borrowings. Based on the respective rates of our borrowings to be repaid, we expect interest savings of approximately RM16.7 million per annum.

Furthermore, the borrowings to be repaid from the proceeds from the Public Issue represent those which generally have relatively higher interest rates. Specifically, the interest rates for the borrowings to be repaid range from 4.77% to 6.75% per annum, or equivalent to a weighted average of 5.84%, as compared to the interest rates of our other term loans ranging from 2.82% and 5.45% per annum.

(iii) Enhancement of Capital Structure

With an increase in our shareholders' funds and the repayment of a portion of our outstanding borrowings, we expect our gearing level (defined as our total interest bearing borrowings over shareholders' funds) to decrease. It is our objective to reduce our gearing to enable our Group to have the flexibility to fund our expansion of operations and to raise financing as and when attractive opportunities arise.

The actual proceeds accruing to our Group will depend on the Institutional Price and the Final Retail Price. If the actual proceeds are higher than budgeted above, the excess will be utilised for general working capital purposes. Conversely, if the actual proceeds are lower than budgeted above, the proceeds allocated for general working capital will be reduced accordingly.

Pending the eventual utilisation of the proceeds from the Public Issue for the above intended purposes, we intend to place the proceeds raised (including accrued interest, if any) or the balance thereof as deposits with banks or licensed financial institutions or short term money market instruments.

4.11 Underwriting, Placement and Lock-Up Arrangements

4.11.1 Underwriting

We have on 27 May 2013 entered into the Retail Underwriting Agreement with, amongst others, the Joint Managing Underwriters and Joint Underwriters to underwrite 252,111,700 Issue Shares ("**Underwritten Shares**") to be issued under the Retail Offering, subject to clawback and reallocation provisions and the Over-allotment Option set out in Sections 4.3.6 and 4.3.7 of this Prospectus, respectively (the "**Retail Underwriting Agreement**").

The details of the underwriting commission are set out in Section 4.12.2 of this Prospectus while the salient terms of the Retail Underwriting Agreement are set out below.

Subject to certain conditions precedent set out in the Retail Underwriting Agreement, CIMB, KIBB, Maybank IB and RHB has each agreed to underwrite 50,422,340 Issue Shares, and AFFIN and MIDF has each agreed to underwrite 25,211,170 Issue Shares.

The Joint Managing Underwriters, acting on behalf of the majority of the Joint Underwriters, may by notice in writing to our Company and the Selling Shareholders at anytime before the Listing date, terminate, cancel and withdraw the Joint Underwriters' underwriting commitment if:

(i) there is any breach by our Company and/or the Selling Shareholders of any of the representations, warranties or undertakings set out in the Retail Underwriting Agreement in any respect;

(ii) our Company and/or the Selling Shareholders withhold any material information from the Joint Managing Underwriters and the Joint Underwriters, which, in the opinion of the Joint Managing Underwriters and Joint Underwriters, will likely have a material adverse effect on our financial and business conditions or our Company's and the Selling Shareholders' ability to perform our respective obligations under or to consummate the Retail Underwriting Agreement, the other transaction agreements pursuant to our IPO and this Prospectus ("**Material Adverse Effect**");

(iii) any event or series of events which are unpredictable and beyond the reasonable control of the Joint Managing Underwriters and the Joint Underwriters which could not have been avoided or prevented by reasonable foresight, planning and implementation ("**Force Majeure**") which would have or can reasonably be expected to have a Material Adverse Effect, or a material adverse effect on the success of our IPO, or which is likely to have the effect of making any material obligation under the Retail Underwriting Agreement incapable of being performed in accordance with its terms;

(iv) any government requisition or other occurrence of any nature whatsoever which would have or is likely to have a Material Adverse Effect, or a material adverse effect on the success of our IPO;

(v) any material adverse change in national or international monetary, financial and capital markets (including stock market conditions and interest rates), political or economic conditions or exchange control or currency exchange rates which in the opinion of the Joint Managing Underwriters and the Joint Underwriters would have or is likely to have a Material Adverse Effect, or a material adverse effect whether in the primary market or in respect of dealings in the secondary market. For the avoidance of doubt, if the FTSE Bursa Malaysia KLCI Index ("**Index**") is, at the close of normal trading on Bursa Securities, on any business day:

    (a) on or after the date of the Retail Underwriting Agreement; and

    (b) prior to the closing date,

    lower than 90%, of the level of Index at the last close of normal trading on the relevant exchange on the business day immediately prior to the date of the Retail Underwriting Agreement and remains at or below that level for at least 3 consecutive Market Days, it shall be deemed a material adverse change in the stock market condition;

(vi) trading of all securities on Bursa Securities has been suspended or other material form of general restriction in trading for 3 consecutive Market Days or more;

(vii) any new law or regulation or change in law, regulation, directive, policy or ruling in any jurisdiction which in the reasonable opinion of the Joint Managing Underwriters and the Joint Underwriters is likely to prejudice the success of our Listing or which is likely to have the effect of making any obligation under the Retail Underwriting Agreement incapable of being performed;

(viii) the Institutional Offering and/or the Retail Offering is stopped or delayed by the Selling Shareholders and/or our Company and/or the regulatory authorities for any reason whatsoever (unless such stoppage or delay has been approved by the Joint Managing Underwriters and the Joint Underwriters);

(ix) the Listing does not take place by 10 July 2013 or such other extended date as may be agreed by the Joint Managing Underwriters;

(x) any commencement of legal proceedings or action against any member of our Group or any Selling Shareholder or any of their directors, which in the opinion of the Joint Managing Underwriters and the Joint Underwriters, would have or likely to have a Material Adverse Effect, or make it impracticable to market our IPO or to enforce contracts to allot and/or transfer our Shares;

(xi) if the SC or any other relevant authority issues an order pursuant to Malaysian laws such as to make it, in the reasonable opinion of the Joint Managing Underwriters and the Joint Underwriters (after consultation with us), impracticable to market our IPO or to enforce contracts to allot and transfer our Shares; or

(xii) the Placement Agreement(s) (as defined in Section 4.11.2 of this Prospectus) shall have been terminated or rescinded.

4.11.2 Placement

We and the Selling Shareholders expect to enter into a Placement Agreement(s) with the Joint Global Coordinators, the Joint Bookrunners and the Co-Lead Managers in relation to the placement of the 538,011,800 IPO Shares under the Institutional Offering, subject to clawback and reallocation provisions set out in Section 4.3.6 of this Prospectus (the "**Placement Agreement(s)**"). We and each of the Selling Shareholders will be requested to give various representations, warranties and undertakings and to indemnify the Joint Global Coordinators, the Joint Bookrunners and the Co-Lead Managers against certain liabilities in connection with the IPO.

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4.11.3 Lock-Up Arrangements

(i) In connection with the Placement Agreement(s), our Company has entered into a lock-up agreement with the Joint Global Coordinators and the Joint Bookrunners, under which our Company agrees that for a period of 180 days from the date of our Listing, our Company shall not, without the prior written consent of the Joint Global Coordinators, (a) offer, pledge, sell, contract to sell, mortgage, charge, assign, issue, or issue or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend, subscribe for, hypothecate or create any encumbrance, or otherwise transfer or dispose of, directly or indirectly, conditionally or unconditionally, any Shares (or any securities convertible into or exercisable or exchangeable for our Shares), whether any such transaction is to be settled by delivery of our Shares or such other securities, in cash or otherwise; (b) enter into any swap, hedge or derivative or other transaction or arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our Shares (or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive or are substantially similar to, our Shares), whether any such transaction is to be settled by delivery of our Shares or such other securities, in cash or otherwise; (c) deposit any Shares (or any securities convertible into or exchangeable for, or which carry rights to subscribe or purchase or that represent the right to receive or are substantially similar to, our Shares) in any depository receipt facilities; or (d) agree to do or announce any intention to do any of the above or an offering or sale of any of our Shares or any other securities exercisable or exchangeable for or convertible into or that represent the right to receive, or are substantially similar to, such Shares (or any interest therein or in respect thereof) or file any registration statement under the US Securities Act with respect to any of the foregoing, whereby the restrictions shall not apply to the IPO Shares and Shares and ESOS Options issued / granted pursuant to our ESOS; and

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(ii) In connection with the Placement Agreement(s), each of the Selling Shareholders, AirAsia Berhad, Dato' Kamarudin Bin Meranun, Tan Sri Dr. Anthony Francis Fernandes, Dato' Seri Kalimullah Bin Masheerul Hassan and Lim Kian Onn (collectively, the "**Parties**") has entered into a lock-up agreement with the Joint Global Coordinators and the Joint Bookrunners, under which the Parties agree that for a period of 180 days from the date of the Listing, the Parties shall not, without the prior written consent of the Joint Global Coordinators, (a) offer, pledge, sell, contract to sell, mortgage, charge, assign, issue, or issue or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend, subscribe for, hypothecate or create any encumbrance, or otherwise transfer or dispose of, directly or indirectly, conditionally or unconditionally, any Shares (or any securities convertible into or exercisable or exchangeable for our Shares), whether any such transaction is to be settled by delivery of our Shares or such other securities, in cash or otherwise; (b) enter into any swap, hedge or derivative or other transaction or arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our Shares (or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive or are substantially similar to, our Shares), whether any such transaction is to be settled by delivery of our Shares or such other securities, in cash or otherwise; (c) deposit any Shares (or any securities convertible into or exchangeable for, or which carry rights to subscribe or purchase or that represent the right to receive or are substantially similar to, our Shares) in any depository receipt facilities; (d) agree to do or announce any intention to do any of the above or an offering or sale of any of our Shares or any other securities exercisable or exchangeable for or convertible into or that represent the right to receive, or are substantially similar to, such Shares (or any interest therein or in respect thereof) or file any registration statement under the US Securities Act with respect to any of the foregoing; or (e) sell, transfer or otherwise dispose of any interest in any shares in any company or other entity controlled by it which is directly, or through another company or other entity indirectly, the beneficial owner of the Shares.

4.12 Brokerage, Underwriting Commission and Placement Fees

4.12.1 Brokerage Fee

Our Company will pay brokerage relating to the Issue Shares under the Retail Offering, at the rate of 1.0% of the Final Retail Price per Issue Share in respect of all successful applications bearing the stamp of CIMB, participating organisations of Bursa Securities, members of the Association of Banks in Malaysia, members of the Malaysian Investment Banking Association and/or the Issuing House.

The Joint Global Coordinators and Joint Bookrunners are entitled to charge brokerage fees to successful applicants under the Institutional Offering. Any brokerage fees payable under the Institutional Offering will not be borne by our Company.

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4.12.2 Underwriting Commission

In accordance with the terms of the Retail Underwriting Agreement, the Joint Underwriters have agreed to underwrite the Issue Shares offered under the Retail Offering for a total underwriting commission of up to 2.0% of the Retail Price multiplied by the number of Shares offered under the Retail Offering. In the event of an increase in the number of IPO Shares under the Retail Offering as described in Section 4.3.2 of this Prospectus, the Joint Underwriters will also be entitled to a fee of up to 2.0% of the Retail Price multiplied by such number of IPO Shares reallocated to the Retail Offering, in accordance with the terms of the Retail Underwriting Agreement.

The abovementioned commissions shall be borne by our Company, in respect of Issue Shares or by the Selling Shareholders, in respect of Offer Shares (where applicable).

4.12.3 Placement Fee

We, in respect of the Issue Shares, and the Selling Shareholders, in respect of Offer Shares, will pay the Joint Global Coordinators, the Joint Bookrunners and Co-Lead Managers a placement fee and selling commission of up to 2.5% on the Institutional Price multiplied by the number of IPO Shares sold pursuant to the Institutional Offering.

For avoidance of doubt, we shall only bear the placement fee attributable to the 340,480,900 Issue Shares under the Institutional Offering whereas the Selling Shareholders shall, proportionately amongst themselves, bear the selling commission attributable to the 197,530,900 Offer Shares under the Institutional Offering.

4.13 Trading and Settlement in Secondary Market

Upon the listing of and quotation on Bursa Securities, our IPO Shares will be traded through Bursa Securities and settled by book-entry settlement through CDS, which is operated by Bursa Depository. This will be effected in accordance with the Rules of Bursa Depository for the operation of CDS accounts, as amended from time to time and the provisions of the SICDA. Accordingly, we will not deliver share certificates to the subscribers for, or purchasers of our IPO Shares.

Beneficial owners of Shares are required under the Rules of Bursa Depository to maintain our IPO Shares in CDS accounts, either directly in their name or through authorised nominees. Persons whose names appear in the Record of Depositors maintained by Bursa Depository will be treated as our shareholders in respect of the number of Shares credited to their respective CDS accounts.

Transactions in our Shares under the book-entry settlement system will be reflected by the seller's CDS account being debited with the number of Shares sold and the buyer's CDS account being credited with the number of Shares acquired. No transfer stamp duty is currently payable for our Shares that are settled on a book-entry basis, although there is a nominal transfer fee of RM10 payable for each transfer not transacted on the market.

Shares held in CDS accounts may not be withdrawn from the CDS except in the following instances:

(i) to facilitate a share buy-back;

(ii) to facilitate a conversion of debt securities;

(iii) to facilitate a corporate restructuring process;

(iv) where a body corporate is removed from the Official List;

(v) to facilitate a rectification of any error; and

(vi) in any other circumstances determined by Bursa Depository from time to time, after consultation with the SC.

Trading of shares of companies listed on Bursa Securities is normally done in "board lots" of 100 shares. Investors who desire to trade less than 100 shares are required to trade under the odd lot board. Settlement of trades done on a "ready basis" on Bursa Securities generally takes place on the 3rd Market Day following the transaction date, and payment for the securities is generally settled on the 3rd Market Day following the transaction date.

It is expected that the Shares offered in our IPO will not commence trading on Bursa Securities until approximately 15 Market Days after the close of the Retail Offering. Subscribers of the Shares will not be able to sell or otherwise deal in the Shares (except by way of book-entry transfer to other CDS accounts in circumstances which do not involve a change in beneficial ownership) prior to the commencement of trading on Bursa Securities.

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5. RISK FACTORS

Before investing in our Shares, you should pay particular attention to the fact that we, and to a large extent our activities, are governed by the legal, regulatory and business environment in Malaysia and in other countries in which we operate, whether presently or in the future. Our business is subject to a number of factors, many of which are outside our control. Prior to making an investment decision, you should carefully consider, along with the other matters set forth in this Prospectus, the risks and investment considerations below. You should note that the following list is not an exhaustive list of all the risks that we face or risks that may develop in the future. These and other risks, whether known or unknown, may have a material adverse effect on us or on our Shares.

5.1 Risks Relating to the Airline Industry

5.1.1 Our business may be adversely affected by terrorist attacks, natural disasters, epidemics and social and political unrest.

The airline industry in general has suffered substantial losses in recent years as a result of terrorism, natural disasters, epidemics, social and political unrest and other global factors. Terrorist attacks, such as those on 11 September 2001, natural disasters such as the 2011 Tōhoku earthquake and tsunami in Japan, epidemics such as avian influenza, Influenza A (H1N1) and Severe Acute Respiratory Syndrome (SARS), and volatility in social and political conditions in the regions in which we operate have in the past, and may in the future, cause substantial reductions in passenger demand, flight cancellations or delays and increases in our operating costs. For example, a series of earthquakes in Christchurch, especially the one in February 2011 resulted in severe damage to the city shortly before our inaugural flight, and followed by the earthquakes in June and December 2011 which hampered the post-earthquake rebuilding efforts. These have affected Christchurch's attractiveness as a tourist destination and contributed to our decision to withdraw from the Christchurch route. Our LBT for the Christchurch route amounted to approximately RM37.5 million for the year ended 31 December 2011, being the first year of operations of our Christchurch route.

Accordingly, any of these types of events, or other events that are not within our control, may have a significant adverse impact on the demand for our services or increase our operating costs, either of which may have a material adverse impact on our financial condition and results of operations.

5.1.2 Our business may be adversely affected by general economic conditions in the markets in which we operate.

We currently conduct substantially all of our operations and generate substantially all of our revenue in the Asia Pacific Region. We expect to focus on network development in markets in the Asia Pacific Region and will prioritise capacity towards launching new routes and expanding frequency in the foreseeable future into several priority markets, namely (1) Australia, (2) China, (3) Taiwan, (4) Japan and (5) Korea. The success of our business depends substantially on the general economic conditions in these regions, and poor economic conditions in the other regions within which we operate would have an adverse effect on our business operations and financial condition. For example, the eurozone crisis had contributed to our decision to withdraw from our London and Paris routes, while the challenging economic and business conditions in Iran, including the volatility of the Iranian currency, had contributed to our decision to terminate our service to Tehran. Our London and Paris routes contributed an aggregated LBT of approximately RM92.7 million, while our Tehran route contributed a LBT of approximately RM1.2 million, for the year ended 31 December 2011. For the year ended 31 December 2012, our London and Paris routes contributed an aggregated LBT of approximately RM65.9 million.

There can be no assurance that the current economic conditions in the Asia Pacific Region can be sustained. An economic crisis and any continuing impact thereof on the economies of countries in the Asia Pacific Region, or any new adverse economic developments therein, could materially and adversely affect the markets in which we operate. General economic downturns could result in a reduction in flight load factors due to reduced demand or restrictions in our ability to obtain external funding. These are largely out of our control but may be detrimental to our operations and financial results.

5.1.3 The airline industry is capital intensive and has high fixed costs.

The airline industry has high start-up and fixed costs due to the nature of the business. High fixed costs within the airline industry primarily relate to the acquisition of aircraft and related financing commitments. As such, to finance the expansion of our aircraft fleet, we may incur a significant amount of debt, and inability to obtain adequate financing for that purpose may impact the implementation of our growth strategy. Please refer to Sections 5.2.3 and 5.2.17 of this Prospectus for further details.

In addition, aircraft fuel and maintenance costs, airport and handling costs, and staff costs are fixed per flight and do not vary significantly with per flight passenger volume. Thus, our industry is generally more susceptible than industries with lower fixed costs to the adverse impact of external shocks. As the airline industry is generally characterised by high fixed costs, any shortfall in revenue levels as a result of external shocks, including economic downturns and other events that result in a disruption in passenger load factors, could have an adverse impact on financial performance. We cannot assure you that such external shocks will not have an adverse impact on our operations and financial results. If any external shocks occur that adversely affect air travel in general, we may experience decreased revenue but would likely not see a corresponding decrease in fixed costs, which would have a material adverse impact on our business and financial and operational conditions.

5.2 Risks Relating To Our Business and Our Operations

5.2.1 We operate in a very competitive industry, where our performance will significantly depend on how effectively we compete with other airlines.

There is intense competition in the airline industry between airlines, principally in terms of price, quality of service, punctuality, frequency, safety, security, branding, customer-base or passenger loyalty, and other related ancillary services.

We may face direct competition from existing carriers or other new competitors in the future, either on our current routes or on new routes that we add to our network. Other carriers in the low-cost, Long-haul segment in the region in which we operate include Australia's Jetstar and, more recently, Singapore's Scoot. The Philippines' Cebu Pacific is expected to launch a low-cost, Long-haul operation in October 2013. Our existing and future competitors in the low-cost, Long-haul market may attempt to undercut our fares in the future or increase their capacity on common routes in an effort to increase their market share. In such event, there is no assurance that our levels of market share, traffic volume and revenue will be unaffected.

As many FSCs generally have the advantage of being larger, with greater resources (whether financial or otherwise), they may be in a better position to withstand losses on some of their routes for a longer period of time. In the event any airline were to reduce its fares to levels that we could not match (while sustaining operations) and were to maintain those reduced fares for an extended period of time, there can be no assurance that we would be able to remain competitive and match those reduced fares for an equivalent period of time.

5.2.2 We depend on regulatory approvals and licences to operate in our existing markets and to gain access to new markets.

We require certain approvals, licences, registrations and permissions to operate our business, and we must comply with all regulations applicable to the operation of our business in order to retain those approvals, licences, registrations and permissions. We have no control over the regulations that apply to our business and there can be no assurance that we will obtain all the necessary approvals and licences for our business operations. If we fail to obtain any of these approvals or licences or renewals thereof in a timely manner or at all, our business could be adversely affected. Further, if we fail to comply with applicable regulations we may be subject to corrective measures and monitoring by the relevant governmental bodies in order to maintain our licences and approvals, or we may lose our licences and approvals, either of which may have a material adverse effect on our business operations.

We are required to hold an AOC which is granted, and is subject to conditions imposed by the DCA. Our AOC is valid for a prescribed period following which an application for renewal has to be made. Our current AOC was issued on 13 September 2012 and is subject to renewal upon expiry on 30 September 2014. To operate either scheduled or non-scheduled air transport services in Malaysia, we are also required to obtain an ASL from the DCA. Our current ASL was issued on 10 May 2013, and is subject to renewal upon expiry on 30 September 2014. There can be no assurance that a new AOC and ASL will be granted to us upon the expiry of each current AOC and ASL, without which we will not be able to operate air services.

For each route we operate, we are required to hold the requisite licences, permits and approvals from the countries to and over which we fly. The validity of each licence, permit or approval varies by country. If any licence, permit or approval is revoked or not renewed upon its expiry or if such renewal is on less favourable terms, we may not be able to operate on the affected route or may have to operate at a reduced frequency. In addition, the actions of Malaysian authorities responsible for overseeing Malaysian airlines and other third parties that we have no control over may adversely affect us. Please refer to Section 7.9.5 of this Prospectus for further details on the regulations that apply to us and our major licences, permits and approvals.

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5.2.3 We may not be successful in implementing our growth strategy.

Our growth strategy involves expanding our market share by increasing the frequency of flights to the markets we currently serve, as well as increasing the number of markets we serve. Our ability to increase our flight frequencies and our market share depends on our ability to obtain additional or new air traffic rights to airports situated within the targeted markets, our ability to establish new hubs and our ability to identify strategic routes in such markets for which such air traffic rights would be obtained. Any restriction or delay in our ability to obtain such air traffic rights and suitable time slots or in our ability to fly those routes and achieve those desired frequencies could have a material adverse effect on our growth strategy. Our growth strategy also depends on our ability to obtain additional or new aircraft and the timely delivery of such aircraft, as well as on our ability to obtain adequate financing on reasonable terms for the acquisition of additional or new aircraft. Please refer to Section 5.2.17 of this Prospectus for further details.

The introduction of new routes or new hubs may not be successful, in which case those routes or hubs may need to be discontinued, such as those described in Section 7.6.5 of this Prospectus. Failure to ensure commercial viability of our business expansion and growth may result in expenses being incurred without a corresponding increase in revenue. The markets which we intend to serve in the future may be in countries where we have limited operating experience. The operation of our business in these markets may present operating, financial and legal challenges which are significantly different from those that we currently encounter in our existing markets or to which we are accustomed.

Our position in the market will also depend upon the effectiveness of our marketing strategies and business development initiatives, as well as our ability to anticipate and respond to various competitive factors affecting the industry. This may include the ability to address pricing strategies of competitors, cope with rising fuel prices, provide high quality and reliable services at low fares, successfully enter new markets, order and obtain aircraft that best suit our strategy, maintain adequate control of our expenses, maintain high aircraft utilisation and load factors so as to bring down unit costs, attract, train, retain and motivate qualified personnel, swiftly respond to customer and market demands, and maintain the safety of our operations. Any failure by us to effectively compete, whether in terms of pricing, quality of services or otherwise, could have a significant adverse effect on the results of our business, operations and financial position.

As we strive to expand our operations and expect to continue to do so for the foreseeable future, our ability to successfully manage our operational, financial and management information systems and resources is essential. Any expansion of our business operations and increase in flight frequencies would put a strain on these systems and resources, and could lead to a point where they are no longer adequate to support our business operations or may result in disruptions to our business operations.

In light of all these factors, there is no assurance of our success in establishing new markets or expanding our current market share, and any failure to do so would harm our business operations, financial condition, profitability and growth prospects.

5.2.4 We may not be able to maintain or grow our ancillary revenues.

Our business strategy includes expanding our portfolio of ancillary products and services. We cannot provide assurance, however, that passengers will purchase these additional ancillary products and services or will continue to pay for the ancillary products and services that we currently offer. Any failure to maintain or expand our ancillary revenues could have a material adverse effect on our operations and financial results.

5.2.5 We are exposed to adverse impacts from any increases in the cost of fuel or any limitations on fuel supply.

Fuel costs constitute a substantial portion of our operating expenses, amounting to an average of approximately 49.0% of our total operating expenses for each of the years from 2010 to 2012 and 47.4% for the 3 months ended 31 March 2013. As such, our operating results are significantly affected by changes in the availability and the cost of jet fuel. For example, the sharp increases in fuel prices from July 2010 to April 2011, after our commencement of flights to London in March 2009 and Paris in February 2011 significantly affected our ability to operate those routes economically, and thus contributed to our withdrawal from both routes in March 2012. Our London and Paris routes contributed an aggregated LBT of approximately RM92.7 million for the year ended 31 December 2011, and approximately RM65.9 million for the year ended 31 December 2012.

In the past, there have been fluctuations in the price of jet fuel which is, among other factors, primarily based on the international price of crude oil, which in turn is influenced by supply and demand in the market, economic factors, political factors and various other factors. In the event of an exorbitant increase in fuel price or a fuel shortage, we may be required to curtail some of our scheduled services to cope with such events. We can neither control nor predict the future cost and availability of fuel with any degree of certainty. Based on our fuel consumption for the year ended 31 December 2012 and the 3 months ended 31 March 2013, a USD1.00 change in price per barrel of fuel would have impacted our fuel expenses by approximately RM7.1 million and RM1.7 million, respectively and correspondingly our operating profits by the same amounts.

We negotiate our fuel and undertake group-level hedging together with the AirAsia Group in order to increase the bargaining power arising from the larger quantities of fuel purchased by the AirAsia Group as a whole. We do not enter into any fuel hedging contracts directly, and any gain or loss arising from fuel hedging is recognised when risk transfers to our Group, namely upon allocation by AirAsia Berhad to us when we consume the fuel. We also pass a portion of our fuel price increases to our passengers in the form of fuel surcharges. There can be no assurance, however, that future increases in fuel prices can be offset in whole or in part by the bargaining power of the AirAsia Group or by increases in our fares and/or our surcharges, and this may have a material adverse effect on our business operations and financial condition.

Please refer to Sections 7.8.1 and 12.4.4 for further details on our fuel supply, how we manage our fuel requirements and our hedging activities.

5.2.6 Our maintenance costs will increase as our fleet ages.

As of March 2013, the average age of our 9 A330-300s (excluding the new A330-300 delivered to us in April 2013) was approximately 4.9 years. Our fleet will require more maintenance as it ages and the costs for this will increase. Although we predict and expect that our fleet maintenance costs will increase in the future, we cannot with reasonable certainty predict the amounts of such increase. A potential significant increase in expenses for fleet maintenance could have a material adverse effect on our financial results and business operations. Our maintenance and overhaul costs accounted for 6.8%, 5.8% and 8.6% of our total operating expenses for the years ended 31 December 2010, 2011 and 2012, respectively.

5.2.7 We may be adversely affected by any increases in the cost of airport facilities and services or any restrictions on access to such airport facilities and services.

We are dependent on the quantity and quality of airport infrastructure for our current operations and for our future expansion, and we have to compete with other airlines for the availability of terminal space, time slots and aircraft parking, all of which are critical to our operations.

In line with our business expansion plans, we will require support equipment and ground and maintenance facilities, including gates and hangars, at the various airports in which we currently operate, and we will require such equipment and facilities at the various airports from which we operate in the future. For efficiency in our operations and overall profitability, such equipment and facilities must be available in a reliable and timely manner. There can be no assurance that such equipment and facilities will be available or reliable in the future.

There can be no assurance of our ability to lease, acquire or access airport facilities or services on commercially acceptable terms and at preferred times to support our growth and expansion plans, and the lack of any of these facilities or services may have a material adverse effect on our business operations and financial results. In addition, airport charges are determined by the respective airports or authorities, and we are unable to predict the factors that may affect any change to such charges.

In addition, we are highly dependent on our operations at the LCCT in Kuala Lumpur, where approximately half of our daily flights originate. There is currently a project underway for the construction of a new low-cost terminal in Kuala Lumpur, which, when completed, will allow us to increase the number of routes we serve from our hub. If construction of this new low-cost terminal is delayed, our expansion strategy may be impeded. In addition, if fees and other costs related to operating out of the new terminal increase in relation to current fees and costs at the LCCT, our results of operations could be adversely affected.

Furthermore, if fees and other related costs at airports that we conduct flights to increase, our results of operations could also be adversely affected. For example, massive increases in airport taxes, fees and handling charges at Indian airports, which were already high as compared to our destinations in Australia, contributed to our decision to withdraw from our Delhi and Mumbai routes. For example, in May 2012, Delhi airport increased airport fees by 346%. Both these routes contributed an aggregated LBT of approximately RM36.5 million for the year ended 31 December 2011, and an aggregated LBT of RM4.4 million for the year ended 31 December 2012.

5.2.8 We rely on third parties to provide us with facilities and services that are integral to our business operations.

We have entered into agreements with third party contractors and operators who are unrelated to our Promoters to provide certain facilities and services required for our operations at the various airports at which we operate, including Kuala Lumpur. These include, but are not limited to, agreements for aircraft maintenance, ground handling, refuelling services, airport facilities, information and communication technology services, catering and administrative and support services. We expect to enter into similar contractual arrangements in any new markets into which we decide to penetrate.

There can be no assurance of the reliability of these third parties, and the loss or expiration of these contracts or any inability to renew them or negotiate contracts with other providers at comparable rates could adversely affect our ability to run our operations. Our reliance on others to provide essential services for us also gives us less control over certain costs and the efficiency, timeliness and quality of such services provided.

5.2.9 We are dependent on our ability to attract and retain personnel on a cost-effective basis, especially our senior management team and highly-skilled talent.

We are highly dependent on our senior management and our executive officers, in particular our Chief Executive Officer, Azran Bin Osman Rani, for the success of our business operations. Our future performance will depend upon the continued services of these persons as we believe that our growth potential and the maintenance of our unique company culture are directly linked to our ability to attract and retain the best possible professionals available in the airline industry.

Competition for senior management in our industry is intense, and we may not be able to effectively retain our senior management personnel or attract and retain new senior management personnel in the future. If any of our executive officers or other key management leaves our company, or if we are unable to recruit suitable or comparable replacements, this could have a material adverse effect on our business.

As we continue to expand our business, there is no assurance that we will be able to identify, hire or retain enough people who meet the high quality and service standards we strive for. We may face difficulties in maintaining our company culture as we become a larger company, and since this is crucial to our business plan, failure to maintain that culture could adversely affect our business operations and financial results.

We may, from time to time, have to consider increasing our wage and benefit packages to attract and retain qualified personnel or risk facing attrition issues. Should highly skilled employees such as pilots, who have been trained by us with our resources, leave to join our competitors, our business operations could be significantly affected. Any failure on our part to attract and retain qualified and skilled employees who meet these criteria at a reasonable cost would adversely affect our corporate culture and reputation and would, in turn, have a material adverse effect on our business and expansion plans.

5.2.10 Due to our high daily aircraft utilisation rate, our operations may be more susceptible to the adverse effects of delays.

A vital part of our business strategy is to maintain high daily aircraft utilisation. High daily aircraft utilisation increases the efficiency of our operations and generates more revenue from the utilisation of our aircraft. This is achieved in part by reducing theturnaround time at airports so that, on average, we are able to fly our aircraft more hours in each day. Various delays that are beyond our control and cause reductions in daily aircraft utilisation include the following:

(i) airport congestion, air traffic and air traffic control related requirements;

(ii) security and safety requirements;

(iii) bad weather or other environmental conditions;

(iv) defects or mechanical problems with our aircraft;

(v) unavailability of flight crew;

(vi) strikes or work stoppages; and

(vii) acts of third parties on whom we rely for our business operations (for example, fuelling, maintenance, among others).

Additionally, the expansion of our business to include new destinations and more frequent flights on existing routes could increase our exposure to congested airports, airports with less established infrastructure or air traffic congestion. An increase in the number of airlines operating at the airports at which we operate may also result in more congestion and delays at those airports. Such delays could reduce our daily aircraft utilisation and, in turn, limit our ability to achieve and maintain profitability. Further, high aircraft utilisation increases the risk that once an aircraft falls behind schedule on a particular day, it could remain behind schedule for all its other flights during the remainder of that day. This may result not only in disruption in operating performance but could lead to passenger dissatisfaction as a result of delayed or cancelled flights or missed connecting flights, which could then have an impact on our reputation.

5.2.11 We are highly reliant on automated systems and the Internet to conduct our business.

We depend significantly on automated systems for our business operations, including our computerised airline reservation system, flight operations system, management and accounting system, telecommunications systems, website, maintenance systems and check-in systems. Whilst the provision and maintenance of computerised airline reservation system, telecommunications systems and website are via the AirAsia Services Agreement between our Company and AirAsia Berhad as detailed in Section 7.9.6(ii) of this Prospectus, these services are nonetheless ultimately provided by third party service providers. Our reservation and website systems must be able to accommodate a high volume of traffic and deliver important flight information. Substantial or repeated system failures of our website, reservation, or telecommunications systems could reduce the attractiveness of our services and incentivise our customers to fly with other airlines, thereby adversely affecting our revenue. There can be no assurance that system failures will not occur in the future. This could then result in the loss of important data, increase our expenses and generally harm our reputation.

5.2.12 We are highly reliant on the continued reliability and availability of the A330-300 and the engines we use, or any other aircraft or engine types we use in the future.

As our business largely depends on procuring, operating and maintaining specific types of aircraft and engines, we are particularly vulnerable to any problems that might be associated with such aircraft or engine types. Our business would be significantly affected if there was a defect in the design or mechanics of such aircraft or engines. While waiting for any such defect to be rectified, assuming that rectification is possible, our fleet would have to be grounded, or the affected aircraft or engines would have to be replaced otherwise.

Regulators could also restrict or even suspend the use of our aircraft while it conducts its own investigation into any actual or perceived design or mechanical defects. Further, any negative perception of our aircraft, whether due to safety, reliability or other concerns (whether actual or perceived), or an accident involving similar aircraft, could lead to the public avoiding our aircraft. This would have a material adverse effect on our business operations and financial results.

In addition, if our lessors or vendors are unable to perform their contractual obligations to lease or sell aircraft and supply engines to us, we may have to find alternative suppliers of aircraft and engines. In such an event, we cannot assure you that we would be able to lease or purchase aircraft and engines within the time frame currently expected or at comparable prices. This would require us to obtain and use another type of aircraft and engine. We cannot assure you that any replacement aircraft would have the same operating advantages as our current A330-300s. We also may incur substantial transition costs, including higher costs associated with retaining or hiring pilots, cabin crew and engineers to operate and maintain a different type of aircraft or engine, and may also have to compensate passengers affected by delays or cancellations of our flights.

5.2.13 We have a limited operating history as a low-cost, Long-haul carrier and it may be difficult to evaluate our future results based on our past performance.

We commenced operations as a low-cost, Long-haul carrier in November 2007. As such, it is difficult to evaluate our future prospects because of our limited operating history as a low-cost, Long-haul carrier. Our prospects are uncertain and must be considered in light of the risks, uncertainties and difficulties frequently encountered by companies during the early stages of operations. Any difficulties in implementing our strategies or any failure to effectively organise and supervise operations may negatively affect our business operations and financial results.

5.2.14 Any accident or sufficiently disruptive or dangerous incident involving any of our aircraft or any AirAsia Group aircraft may adversely affect our reputation and business.

If any of our aircraft were lost or damaged due to either an accident or a sufficiently disruptive or dangerous incident, we would be exposed to potential significant losses due to required repairs or replacements of the affected aircraft, as well as the temporary or permanent loss of use of that aircraft. We would also be exposed to potential claims in the event that such incidents involve passenger injuries or fatalities. Events such as adverse weather conditions and natural disasters, bird strikes, technical breakdowns and human errors or sabotage are unpredictable and there can be no assurance that our aircraft will not be involved in any such events.

In addition to these direct losses, any of the above incidents affecting our aircraft could create negative public perception of the quality of our airline's safety practices.

This could have a material adverse effect on our reputation and our business operations.

Further, any accidents or other dangerous incidents involving other airlines in the AirAsia Group may be associated with our Company and may create negative public perception of the quality of our safety practices, which consequently could have a material adverse effect on our reputation, our business operations and financial performance.

5.2.15 We rely on the AirAsia brand and are subject to the terms of the Brand Licence Amendment and Renewal Agreement with AirAsia Berhad.

Pursuant to the Brand Licence Amendment and Renewal Agreement, we are granted a non-exclusive, non-transferable licence to operate scheduled Long-haul air services under the trade name and livery of "AirAsia X" or "AirAsia", including the use of trademarks owned by AirAsia Berhad such as "www.airasia.com", "go holiday", "AirAsia GetACar" and "AirAsia GoInsure". The Brand Licence Amendment and Renewal Agreement has an initial term of 5 years from 21 July 2012. Thereafter, parties may enter into negotiations to extend the term for up to 4 successive terms of 5 years each.

The success of our business will depend on AirAsia Berhad's awareness and ability to prevent third parties from using the AirAsia trade name and related trademarks without its consent. The "AirAsia" and "AirAsia X" trademarks are currently registered in Malaysia, the European Union and in 20 other countries throughout Asia (including the Middle East), Australia and the United States. AirAsia Berhad is seeking to register these trademarks in additional jurisdictions. Notwithstanding the above, we cannot assure you that the steps taken by AirAsia Berhad in this regard will adequately protect the AirAsia trade name and related trademarks and third parties may challenge the AirAsia Group's rights to use the AirAsia trade name, including our right to use the AirAsia trade name and related trademarks. Issues relating to intellectual property rights can be complicated and we cannot assure you that disputes will not arise or that any disputes in relation to the intellectual property will be resolved in AirAsia Berhad's favour.

Our success also depends, in part, on our continued ability to use the AirAsia trade name and related trademarks in order to increase our brand awareness. If for any reason the "AirAsia X" trade name and related trademarks are withdrawn by AirAsia Berhad or become unavailable to us or we are required to pay a higher licence fee for the use of the AirAsia trade name and related trademarks, or should there be any other material changes to the Brand Licence Amendment and Renewal Agreement, whether as a result of a breach or otherwise, or in the event we are unable to extend the term of the Brand Licence Amendment and Renewal Agreement, our business operations and financial results would be adversely affected.

AirAsia Berhad may terminate the Brand Licence Amendment and Renewal Agreement immediately upon notice if:

(i) we take any legal steps to challenge AirAsia Berhad's exclusive rights to all or any part of its brand or the validity of the Brand Licence Amendment and Renewal Agreement;

(ii) our AOC or ASL is revoked;

(iii) a force majeure event happens, including amongst others, acts of God, war, fire, storms, floods, terrorism and riots; or

(iv) there is change of control of AirAsia X which results in a substantial change in the existing shareholding structure of AirAsia X. In this regard, it is noted that an initial public offering of shares of AirAsia X does not amount to such a change.

Either party may terminate the Brand Licence Amendment and Renewal Agreement immediately upon notice if:

(i) there is a breach of the Brand Licence Amendment and Renewal Agreement by a party which is incapable of remedy;

(ii) a party ceases or threatens to cease to carry on business; or

(iii) a party goes into insolvency.

5.2.16 We rely substantially on our association with AirAsia Berhad and the other members of the AirAsia Group.

We rely substantially on our association with AirAsia Berhad and the other members of the AirAsia Group and on various shared services including, but not limited to, use of the brand name, information technology (including the www.airasia.com website through which 84% of our seats were sold for the year ended 31 December 2012), fuel procurement and hedging, and other services that provide negotiation strength and economies of scale through our association with the AirAsia Group. There is no assurance that we will continue to be a member of the AirAsia Group in the future. Any future termination of our affiliation with the AirAsia Group or termination of the shared services across the members of the AirAsia Group could have a material adverse effect on our business. Further, with the growing network of AirAsia Berhad and other companies in the AirAsia Group, any incidents that negatively impact AirAsia Berhad or any of the other members of the AirAsia Group could similarly have a negative impact on our reputation.

We have a non-exclusive right to use the AirAsia trade name for Long-haul operations pursuant to the terms of the Brand Licence Amendment and Renewal Agreement. Although under the Brand Licence Amendment and Renewal Agreement, AirAsia Berhad may not directly or indirectly invest in, or grant a licence to, another low-cost, Long-haul carrier based in Malaysia, AirAsia Berhad may invest in low-cost, Long-haul air carriers that are based in any other member countries of ASEAN, provided that AirAsia Berhad gives us the first right of refusal to undertake such investments. AirAsia Berhad may also invest in low-cost, Long-haul carriers outside of ASEAN, provided that we are afforded a reasonable opportunity to co-invest with AirAsia Berhad. Although under the Brand Licence Amendment and Renewal Agreement, AirAsia Berhad acknowledges that they, as a Short-haul carrier, will operate scheduled flights of under a 4-hour flight range from any common point or hub, future operations by AirAsia Berhad or by other members of the AirAsia Group in other markets, or investment by AirAsia Berhad or other members of the AirAsia Group in low-cost, Long-haul carriers in other countries, could have a material adverse effect on our business operations and financial results.

If (i) we are unable to leverage the AirAsia trade name, business network, expertise and overall relationship with AirAsia Berhad and the AirAsia Group in general in any material respect, (ii) there is a material change in the business strategy or key management of AirAsia Berhad that results in AirAsia Berhad re-examining its relationship with us or with the AirAsia Group or (iii) actions of AirAsia Berhad or any other member of the AirAsia Group adversely affect the AirAsia brand name, our business, results of operations and prospects would be materially and adversely affected. We cannot assure you that the actions of AirAsia Berhad or other members of the AirAsia Group will not adversely affect our business in the future.

5.2.17 We may incur a significant amount of debt or may need to raise new equity in the future to finance the expansion of our aircraft fleet.

In the past, we have required financing to acquire the aircraft in our fleet and we are most likely to require financing and incur significant amounts of debt in the future to fund the acquisition of additional aircraft, other anticipated capital expenditures, working capital requirements and other business expansion plans.

As at 31 March 2013, we had committed to the acquisition of aircraft from Airbus at a total list price of approximately USD6.9 billion (or approximately RM21.4 billion). In addition, the future minimum lease payments for our aircraft under operating leases amounted to approximately RM2.4 billion as at 31 March 2013. To meet these financial commitments, we may need to raise additional funds. However, we cannot provide assurance that additional financing will be available to us on favourable terms or at all. Our gearing ratio as at 31 March 2013 was 2.2 times. In the event that we are unable to obtain adequate financing on reasonable terms or at all to fund our expansion plans, including acquisition of additional aircraft, we may not be successful in implementing our growth strategy, as detailed in Section 5.2.3 of this Prospectus. Further, if we are unable to secure the relevant financing to fund our aircraft acquisition, we may not be able to meet the relevant payment obligations under our aircraft purchase agreements as and when they fall due, and therefore be subject to applicable late payment interest, if any, as set out in Sections 7.9.6(iv) and (v) of this Prospectus and potential legal claims by Airbus under contractual default. Airbus would also be entitled to apply any pre-delivery deposits paid for the aircraft to satisfy any amount due and unpaid by us and be compensated for any losses or damages suffered by Airbus as a result of our default. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Shares, and our existing shareholders may experience a dilution in the value of our Shares.

Additionally, any credit facilities that we obtain in the future may contain restrictive covenants which would limit the way in which we carry on our business activities. These credit facilities may also limit our future financing activities and would require the creation or granting of security interests over our assets.

Our ability to meet our payment obligations and to fund planned capital expenditure will depend on the success of our business strategy and our ability to generate sufficient cash flow to satisfy our obligations.

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5.2.18 We could be negatively impacted by any failure to comply with covenants contained in our leasing and financing agreements.

We have entered into various aircraft financing agreements with certain financiers and various aircraft and engineering operating lease agreements with certain lessors, as well as banking facilities. These agreements contain customary termination events and also require us to comply with certain additional covenants during the term of each agreement. Some of our financing agreements are also subject to review or termination in the event of a change in control of our Company, which is defined differently depending on the agreement. Failure to comply with such covenants could result in a default under the relevant agreement, and ultimately an accelerated repayment of borrowings or a re-possession of the relevant aircraft or engine.

In relation to two of our banking facilities, we have obtained waivers until 31 July 2013, from having to comply with certain financial ratio covenants that we did not meet for the year ended 31 December 2012. Further details of the aforementioned non-compliances are set out in Section 12.9.3 of this Prospectus. There can be no assurance that we will not breach financial covenants in the future, that we will meet the aforementioned financial covenant ratios when the applicable waiver periods expire, that we will be able to obtain any further indulgences or waivers for these or other matters, or that any future breaches would not result in a default under our facilities, any of which could materially and adversely affect our financial position. Certain of these agreements also contain cross default clauses, as a result of which defaults under one agreement could be treated as defaults under other agreements. As such, a failure to comply with the covenants in such agreements could have a negative impact on us. Please refer to Sections 12.9.3, 12.9.4 and 12.9.5 of this Prospectus for further details on our banking facilities, aircraft finance leases and aircraft operating leases, respectively, including details on the status of our compliance with such covenants.

5.2.19 We may be adversely affected by movements of currency exchange rates.

As at 31 March 2013, 79.0% of our total borrowings of RM1.4 billion were denominated in USD. We are therefore exposed to any significant exchange rate movement of the USD. Furthermore, due to the geographic diversity of our business, we receive revenue and incur expenses in a variety of international currencies and therefore face currency exchange rate risks. For example, the recent volatility of the Iranian currency contributed to our decision to terminate our service to Tehran. On the other hand, most of our aircraft and engine maintenance services, aircraft leasing commitments, insurance contracts, and all of our aircraft purchase contracts are denominated in USD. Our fuel contracts are denominated in multiple currencies.

Appreciation or depreciation in the value of the USD or other foreign currency relative to the RM, and in particular, the effects of any appreciation or depreciation of the USD in relation to the RM as it affects our USD-denominated borrowings, may have a significant impact on our financial results reported in RM without giving effect to any underlying change in our business or results of operations. Any currency exchange rate fluctuations may also lead to a decrease in our profit margins or to operating losses. These may be caused by increases in costs that are denominated in a particular currency or in interest expenses, currency exchange losses on unhedged fixed obligations, or indebtedness denominated in foreign currencies. We cannot provide assurance that we will be able to effectively mitigate the possible adverse effect of any future currency fluctuations on our business and financial position.

5.2.20 We may not be able to continue to benefit from the Investment Allowance tax exemption if it is not renewed after 2014.

The Ministry of Finance of Malaysia granted us income tax exemption under Section 127 of the Income Tax Act, 1967 in the form of an Investment Allowance of 60.0% on qualifying expenditure incurred within a period of 5 years commencing 1 September 2009 to 31 August 2014, to be set off against 70.0% of the statutory income for each year of assessment. For the past 3 years ended 31 December 2010, 2011 and 2012, we have recognised tax incentives amounting to an aggregate of approximately RM184.4 million pursuant to the Investment Allowance tax exemption. Any unutilised tax allowances may be carried forward after 2014 until fully utilised. There is no assurance that we would be able to benefit from a similar tax exemption following the expiration thereof in 2014. Accordingly, our effective tax rate may increase as a result of the termination of the existing tax exemption.

5.2.21 We may be subject to increased costs if planned environmental regulations are implemented.

Carbon emissions by aircraft are a serious environmental concern, and efforts have been made by IATA to encourage governments to take measures to reduce greenhouse gas emissions from their aviation industries with a view towards achieving carbon-neutral growth by the year 2020. In light of this, IATA is advocating a global approach to reduce emissions, which involves the adoption of a uniform standard for accounting for emissions across all participating international jurisdictions as opposed to separate carbon emissions standards adopted by individual countries.

IATA has been working with ICAO to put in place a regulatory system to account for and control emissions and allow access to carbon markets, use revenues from economic measures such as emissions permit auctions, and provide incentives for fleet renewal with more fuel efficient aircraft. ICAO has developed certain standards, policies and guidelines with a focus on technological improvements, more efficient operating procedures and proper organisation of air traffic. There is, as yet, no mandatory system in place for the regulation of aircraft emissions by ICAO, and each jurisdiction is given the freedom to manage its respective aviation industry to comply with the policies and guidelines by ICAO. ICAO is moving, however, towards a carbon trading system such as that implemented by the European Union. While carbon emission controls have not been enacted in the jurisdictions in which we currently operate, if any such restrictions are put in place, our operations may be materially affected. If carbon emission restrictions are adopted, such controls would apply across the industry as a whole, and not imposed solely on us or any other particular carrier, and may result in increased operational costs that are passed through to customers through increases in fares. For example, the increases in our passenger fares as a result of the pass through of additional operating costs associated with the application of the European Union Emission Trading System to the aviation sector commencing 1 January 2012, contributed to our decision to discontinue our services to London and Paris in March 2012.

In addition, other changes in the interpretation of current environmental regulations or the introduction of new laws or environmental regulations which affect our business may have a material adverse effect on our business and our operations.

5.2.22 We do not have full insurance coverage for certain risks, and may not be able to obtain insurance coverage on commercially reasonable terms.

As operating an airline involves many risks and hazards, the availability of insurance is fundamental to our operations and crucial to risk management. However, insurance coverage is generally not available or prohibitively expensive for certain risks, and certain aviation related insurance may become unavailable or available only for reduced amounts of coverage that are insufficient to comply with the levels of coverage required by aircraft lessors or applicable government regulations. It is to be noted the requirement for such insurance coverage by aircraft lessors or applicable government regulations is a pre-requisite for us to operate such aircraft and/or routes. In the event that we are unable to obtain the requisite insurance coverage, we would not be able to operate such aircraft and/or routes.

Furthermore, with respect to government regulations, certain air service licences issued by the relevant government authorities have made it a condition in the licences for our Company to obtain specific insurances.

In line with industry practice, certain business risks are left uninsured when insurance coverage is generally unavailable. These include risks such as business interruptions, loss of profit or revenue as well as mechanical breakdowns. Any inability on our part to obtain insurance, whether on commercially acceptable terms or at all, for general operations or specific assets, would have a material adverse effect on our business operations and financial performance.

To the extent that any uninsured risks materialise, it could cause a substantial increase in our insurance premiums and detrimentally affect our operating results and financial performance. For example, in the event of terrorist attacks, hijackings, aircraft crashes or other events that generally adversely affect the airline industry, there is a risk that aviation insurers will further increase their premiums or reduce the availability of insurance coverage.

There can be no assurance that our insurance coverage will cover any or all actual losses incurred during our operations. If actual losses incurred by us for any event exceed the insured amount under our insurance policies, we may have to bear substantial losses which would have a material adverse effect on our financial results.

Please refer to Section 7.9.3 of this Prospectus for further details on our level of insurance coverage.

5.3 Risks Relating To Our Shares

5.3.1 There has been no prior market for our Shares and a market for our Shares may not develop.

There has been no prior market for our Shares and there is no assurance as to the liquidity of any market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares. None of us, the Promoters, Selling Shareholders and the Joint Bookrunners have an obligation to make a market for our Shares.

Application has been made to Bursa Securities for our Listing of, and quotation for, our enlarged and issued paid-up share capital (including the IPO Shares) on the Main Market, and it is expected that there will be an approximate 15 Market Days gap between the closing of the Retail Offering and trading of our Shares. We cannot assure you that there will be no event or occurrence that will have an adverse impact on the securities markets, our industry or us specifically during this period that would adversely affect the market price of our Shares when they begin trading.

5.3.2 There may be a potential delay or failure of our Listing.

Our Listing may be potentially delayed or aborted upon the occurrence of the following events:

(i) we do not meet the public spread requirements as determined by Bursa Securities (including as a result of any decision by us not to reallocate shares from the Retail Offering to the Institutional Offering as described in Section 4.3.6(iii)) of having at least 25.0% of our enlarged and issued paid-up share capital in the hands of at least 1,000 public shareholders holding at least 100 Shares each at the point of listing;

(ii) we are not able to obtain the approval of Bursa Securities for our Listing for whatever reason;

(iii) failure by the identified investors to subscribe for the portion of Shares to be placed to them; or

(iv) exercise by the Joint Bookrunners, the Principal Adviser, the Joint Managing Underwriters and the Joint Underwriters of their rights pursuant to the Retail Underwriting Agreement to discharge themselves from their obligations thereunder.

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within 14 days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of 10.0% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

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

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

(i) general market, political and economic conditions;

(ii) trading liquidity of our Shares;

(iii) changes in earnings estimates and recommendations by financial analysts;

(iv) changes in market valuations of listed shares in general or shares of companies comparable to ours;

(v) changes in government policy, legislation or regulation; and

(vi) general operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of our Shares. Accordingly, our Shares may trade at prices lower than the Institutional Price or Final Retail Price.

Over the past few years, the Malaysian, regional and global equity markets have experienced significant price and volume volatility that have affected the share prices of many companies. Share prices of many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. As such, the price and trading of our Shares may be subject to fluctuation.

5.3.4 Our Company may not pay dividends to shareholders.

Dividend payments are not guaranteed and our Board may decide, at its sole and absolute discretion, at any time and for any reason, not to pay dividends. We have not paid any dividends to our shareholders since the incorporation of our Company.

Although we are unlikely to pay any dividends in the immediate future, in the event that we decide to pay dividends in the future, our ability to do so will also depend on our future financial performance which, in turn, depends on the successful implementation of our strategy and on financial, competitive, regulatory and other factors, general economic conditions, demand and fares, costs of jet fuel and other factors specific to our industry, many of which are beyond our control. Furthermore, payment of dividends may also be limited by restrictive covenants contained in our current and future financing agreements which generally provide that for so long there is any amount due and payable under the facility or any other obligations under the facility remain outstanding, prior written consent of the lender is required before we declare, make or pay any dividend.

5.3.5 After the completion of the IPO, our Promoters' interests may be different from those of our other shareholders.

After the completion of the IPO, our Promoters will own approximately 1,277 million Shares, representing approximately 53.8% of our issued and outstanding Shares. By virtue of their shareholding in us, our Promoters will have the ability to indirectly exercise control over us and our affairs and business, including the election of directors, the timing and payment of dividends and the approval of most other actions requiring the approval of its shareholders. There can be no assurance that interests of our Promoters will be aligned with those of our other shareholders.

5.3.6 The sale or the possible sale of a substantial number of our Shares in the public market could adversely affect the price of our Shares.

Following the offering and sale of up to approximately 790 million IPO Shares, up to 33.3% of our Shares will be publicly held by investors participating in our IPO, while approximately 1,277 million Shares, or 53.8% of our issued and paid-up share capital, will be held by our Promoters.

Notwithstanding our existing level of cash and cash equivalents, we may issue additional Shares after the end of the lock-up period in connection with financing activities or otherwise, and it is possible that our Promoters may dispose of some or all of their Shares after the lock-up period and/or moratorium period, pursuant to their own investment objectives. If our Promoters sell, or are perceived as intending to sell, a substantial amount of our Shares, the market price for our Shares could be adversely affected.

5.3.7 Investors in our IPO will suffer immediate dilution in net tangible assets.

The Institutional Price per Share is higher than the net tangible asset value per Share by RM0.86 after adjusting for our IPO. Investors subscribing for Shares in our IPO will therefore incur immediate dilution on a net tangible asset value per Share basis. The issuance of further ordinary shares at prices lower than the then existing net tangible asset value per ordinary share would result in further dilution. Please refer to Section 4.9 for further details on "Dilution".

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

Our Articles prescribe a 45.0% limit on non-Malaysian ownership of our Company's issued and paid up share capital. A foreign shareholder whose acquisition of Shares is determined by our Board to have resulted in this limit being exceeded, taking into account the time of acquisition of such Shares, shall be entitled to all rights, benefits, powers and privileges and be subject to all liabilities, duties and obligations in respect of and arising from such Shares, except for the voting rights in respect thereof. As a result, the liquidity and market price of the Shares may be adversely affected, particularly when the foreign ownership limit has been reached. The voting rights of the affected Shares will be automatically reinstated when the foreign ownership limit has been restored.

Our Board may take various steps to prevent these foreign ownership limits from being exceeded, which would otherwise adversely affect our Company's international traffic rights, further details of which are set out in Section 7.9.5(ii) of this Prospectus. For example, subject to the requisite regulatory approvals, our Board may be authorised to issue new Shares to Malaysians in order to reduce the proportion of Shares owned by non-Malaysians. Such an issuance of new Shares would be limited to 10.0% of our Company's issued and outstanding share capital and also requires annual renewal of our Board's general mandate by shareholders. However, there can be no assurance that the Company would be able to complete such an issuance of Shares and any issuance would immediately dilute our Company's then existing shareholders.

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6. INFORMATION ON OUR GROUP

6.1 Our Company

Our Company was incorporated on 19 May 2006 as a private limited company in Malaysia under the Companies Act under the name of Eden Hub Sdn Bhd. Our name was subsequently changed to Fly Asian Xpress Sdn Bhd on 1 June 2006. Our principal activities then were the operation of air services in the rural areas of Sabah and Sarawak (East Malaysia) until 30 September 2007. We changed our name to AirAsia X Sdn Bhd on 21 September 2007 and our company was converted into a public company and assumed our present name AirAsia X Berhad on 9 October 2012.

We have been principally engaged in the business of providing low-cost, Long-haul air transportation services since November 2007.

Further details of our Group and our history are set out in Section 7.1 of this Prospectus.

6.2 Share Capital

6.2.1 Authorised, Issued and Fully Paid-Up Share Capital

Our authorised share capital as at the date of this Prospectus is RM500,000,000 comprising 3,333,333,333 Shares.

Our issued and paid-up share capital as at the date of this Prospectus is RM266,666,668 comprising 1,777,777,787 Shares.

6.2.2 Details of the Issue and Allotment of Shares of our Company

Details of the changes to our issued and paid-up share capital for the past 3 years preceding the date of this Prospectus were as follows:

(i) Shares

Date of allotment	No. of Shares	Par Value RM	Consideration	Cumulative issued and paid-up share capital RM
11 June 2010	10,000,000	1.00	Cash	208,000,001
3 July 2010	4,707,200	1.00	Cash	212,707,201
7 July 2010	11,292,800	1.00	Cash	224,000,001
10 May 2013	42,666,667	1.00	Conversion of RCPS	266,666,668
13 May 2013	1,777,777,787	0.15	Subdivision of shares	266,666,668

(ii) RCPS

Date of allotment	No. of RCPS	Par Value RM	Consideration	Cumulative issued and paid-up share capital RM
9 July 2010	16,000,000	1.00	Cash	42,666,667

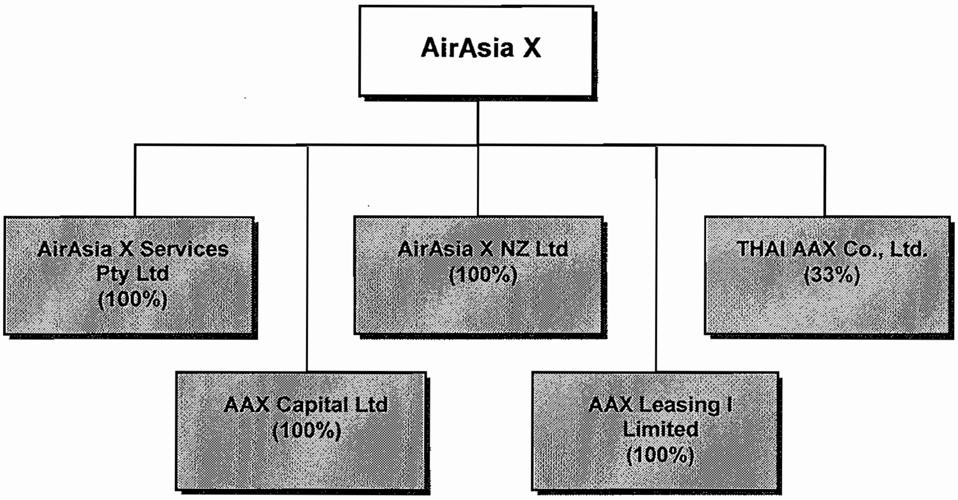
AirAsia Berhad had on 10 May 2013 converted all of its outstanding 42,666,667 RCPS into 42,666,667 ordinary shares of RM1.00 each.

There was no outstanding warrant, option, convertible security or uncalled capital in respect of the shares in our Company and subsidiaries as at the date of this Prospectus. Prior to our Listing, a total of up to 9,850,000 ESOS Options are proposed to be granted to Eligible Employees, details of which are set out in Section 4.5 of this Prospectus.

6.3 Our Subsidiaries and Associated Company

6.3.1 Group Structure

Our current Group structure is set forth below:



Other than the above, our Company does not have any other subsidiaries, associated companies or joint-controlled entities.

6.3.2 Details of our Subsidiaries and Associated Company

As at the LPD, our subsidiaries and associated company were as follows:

Name	Country of incorporation	Date of incorporation	Issued and paid-up share capital	Our Company's effective interest (%)	Principal Activities
AirAsia X Services Pty Ltd	Australia	4 January 2010	AUD1.00 comprising 1 ordinary share of AUD1.00	100%	Provision of management logistical and marketing services in Australia
AirAsia X NZ Limited	New Zealand	1 February 2011	NZD100.00 comprising 100 ordinary shares	100%	Dormant
AAX Capital Ltd	Federal Territory of Labuan	21 June 2010	USD2.00 comprising 2 ordinary shares	100%	Dormant

Name	Country of incorporation	Date of incorporation	Issued and paid-up share capital	Our Company's effective interest (%)	Principal Activities
AAX Leasing I Limited	Federal Territory of Labuan	16 August 2011	USD1.00 comprising 1 ordinary share	100%	Engine leasing
THAI AAX Co., Ltd.	Thailand	12 March 2013	THB15.00 comprising 3 shares of THB5.00 each	33%	Dormant

(i) AirAsia X Services Pty Ltd

(a) History and Business

AirAsia X Services Pty Ltd was incorporated on 4 January 2010 as a private limited company in Australia under the Australian Corporations Act 2001 under its present name.

AirAsia X Services Pty Ltd commenced its business on 4 January 2010. AirAsia X Services Pty Ltd is principally involved in the provision of management logistics and marketing services as well as the employment of Australia nationals to support our operations in Australia.

(b) Share Capital

As at the LPD, the issued and paid-up share capital of AirAsia X Services Pty Ltd consisted of 1 ordinary share at AUD1.00 par.

There has been no change in the issued and paid up share capital of AirAsia X Services Pty Ltd since its incorporation date and the issuance of its existing share capital on 4 January 2010 up to the LPD.

(c) Shareholder

As at the LPD, AirAsia X Services Pty Ltd was a wholly-owned subsidiary of our Company. There is no outstanding warrant, option, convertible security or uncalled capital in respect of the shares in AirAsia X Services Pty Ltd as at the LPD.

(d) Subsidiary and Associated Companies

AirAsia X Services Pty Ltd did not have any subsidiaries and associated companies as at the LPD.

(ii) AirAsia X NZ Limited

(a) History and Business

AirAsia X NZ Limited was incorporated on 1 February 2011 as a private limited company in New Zealand under the New Zealand Companies Act 1993 under its present name.

AirAsia X NZ Limited commenced its business on 1 February 2011. AirAsia X NZ Limited was principally involved in the provision of management logistics and marketing services as well as the employment of New Zealand nationals to support our operations in New Zealand. However, due to the termination of our routes to New Zealand, it has ceased service in New Zealand since July 2012 and we intend to wind up AirAsia X NZ Limited going forward.

(b) Share Capital

As at the LPD, the issued and paid-up share capital of AirAsia X NZ Limited consisted of 100 ordinary shares.

There has been no change in the issued and paid up share capital of AirAsia X NZ Ltd since its incorporation date and the issuance of its existing share capital on 1 February 2011 up to the LPD.

(c) Shareholder

As at the LPD, AirAsia X NZ Limited was a wholly-owned subsidiary of our Company. There was no outstanding warrant, option, convertible security or uncalled capital in respect of the shares in AirAsia X NZ Limited as at the LPD.

(d) Subsidiary and Associated Companies

AirAsia X NZ Limited did not have any subsidiaries and associated companies as at the LPD.

(iii) AAX Capital Ltd

(a) History and Business

AAX Capital Ltd was incorporated on 21 June 2010 as a private limited company in the Federal Territory of Labuan under the Labuan Companies Act 1990 under its present name.

AAX Capital Ltd was a special purpose vehicle incorporated for working capital loan purposes, and is currently a dormant company, which we intend to wind up going forward.

(b) Share Capital

As at the LPD, the issued and paid-up share capital of AAX Capital Ltd was USD2.00 consisting of 2 ordinary shares.

There has been no change in the issued and paid up share capital of AAX Capital Ltd since its incorporation date and the issuance of its existing share capital on 21 June 2010 up to the LPD.

(c) Shareholder

As at the LPD, AAX Capital Ltd was a wholly-owned subsidiary of our Company. There was no outstanding warrant, option, convertible security or uncalled capital in respect of the shares in AAX Capital Ltd as at the LPD.

(d) Subsidiary and Associated Companies

AAX Capital Ltd did not have any subsidiaries and associated companies as at the LPD.

(iv) AAX Leasing I Limited

(a) History and Business

AAX Leasing I Limited was incorporated on 16 August 2011 as a private limited company in the Federal Territory of Labuan under the Labuan Companies Act 1990 under its present name.

AAX Leasing I Limited is a special purpose vehicle incorporated for the purpose of engine leasing.

(b) Share Capital

As at the LPD, the issued and paid-up share capital of AAX Leasing I Limited was USD1.00 consisting of 1 ordinary share.

There has been no change in the issued and paid up share capital of AAX Leasing I Ltd since its incorporation date and the issuance of its existing share capital on 16 August 2011 up to the LPD.

(c) Shareholder

As at the LPD, AAX Leasing I Limited was a wholly-owned subsidiary of our Company. There was no outstanding warrant, option, convertible security or uncalled capital in respect of the shares in AAX Leasing I Limited as at the LPD.

(d) Subsidiary and Associated Companies

AAX Leasing I Limited did not have any subsidiaries and associated companies as at the LPD.

(v) THAI AAX Co., Ltd.

(a) History and Business

THAI AAX Co., Ltd. was incorporated on 12 March 2013 as a limited company in Thailand under the Thai Civil and Commercial Code under its present name.

THAI AAX Co., Ltd. is currently dormant. Its intended principal activity is to provide low-cost, Long-haul air transportation services in Thailand.

(b) Share Capital

As at the LPD, the issued and paid-up share capital of THAI AAX Co., Ltd. was THB15.00 consisting of 3 shares of THB5.00 each.

There has been no change in the issued and paid up share capital of THAI AAX Co., Ltd. since its incorporation date and the issuance of its existing share capital on 12 March 2013 up to the LPD.

(c) Shareholder

As at the LPD, our Company holds 33.3% of the shares in THAI AAX Co., Ltd. which may be further increased up to 49.0%, being the maximum allowable foreign shareholding of a Thai company. Further details of our estimated level of initial capital contributions in THAI AAX Co., Ltd. are set out in Section 12.9.7 of this Prospectus.

There was no outstanding warrant, option, convertible security or uncalled capital in respect of the shares in THAI AAX Co., Ltd. as at the LPD.

(d) Subsidiary and Associated Companies

THAI AAX Co., Ltd. did not have any subsidiaries and associated companies as at the LPD.

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7. BUSINESS OVERVIEW

7.1 Overview

We are a leading low-cost, Long-haul airline, operating primarily in the Asia Pacific Region. Based upon our breakthrough business model, we believe that we have the lowest unit cost base of any airline in the world[(1)], with a CASK of US¢3.74 and CASK (excluding fuel) of US¢1.90 for 2012. This implies a 67.3% and 75.3% lower CASK and CASK (excluding fuel), respectively, as compared to the average CASK and CASK (excluding fuel) of the 10 largest FSCs based in the Asia Pacific Region (ranked by operating revenue) that reported these figures (source: S-A-P). This in turn has enabled us to offer fares[(2)] that are targeted, on average, to be 30% - 50% lower than FSCs and to stimulate new market demand, whereby passenger volumes between Kuala Lumpur and other destinations we serve grew by an average of over 90% from the year before the launch of each route to the year ended 31 December 2012.

Incorporated in May 2006, we commenced low-cost, Long-haul passenger and cargo air services in November 2007 from our hub at Kuala Lumpur, with our inaugural route between Kuala Lumpur and Gold Coast in Australia. We now serve 14 destinations across Asia (Tokyo, Osaka, Seoul, Taipei, Beijing, Hangzhou, Chengdu, Shanghai and Kathmandu), Australia (Sydney, Melbourne, Perth and Gold Coast) and the Middle East (Jeddah), with flights to an additional destination, namely Busan, commencing in July 2013. We currently operate a fleet of 10 A330-300s for scheduled services, and have 2 A340-300s which are currently wet-leased. We have also accepted delivery of an additional A330-300, scheduled to commence operations in July 2013. Our fleet represents the largest LCC wide-body aircraft seat capacity in the Asia Pacific Region.

Our breakthrough model benefits from our association with the AirAsia Group. From commencement of operations, we have been able to leverage the AirAsia Group's globally recognised brand and large existing customer base, as well as the broad and deep Short-haul LCC network. The broad network served by the other carriers in the AirAsia Group comprises 81 destinations around Asia from 16 hubs as at the LPD, that provides vital feed to and from our hub in Kuala Lumpur. In terms of the depth of the network, the other carriers in the AirAsia Group collectively account for a weekly frequency of 2,864 return flights, or 5,728 one-way flights as at the LPD. In addition, we have benefitted from shared services with AirAsia Berhad via the AirAsia Services Agreement as detailed in Section 7.9.6(ii) of this Prospectus, which lowered our start-up costs and time-to-market. Please refer to Section 7.9.6(i) of this Prospectus for details on the Brand Licence Amendment and Renewal Agreement, which grants us the licence to use the "AirAsia" brand and trade name for Long-haul operations.

With our early mover advantage, the largest LCC wide-body aircraft seat capacity in the Asia Pacific Region, our growing route network and passenger base, and lower costs and fares than FSCs, our vision is to be a leading Long-haul LCC globally. We expect to achieve this by exploiting a significantly under-served segment of price-sensitive air travellers on Long-haul routes that extend beyond the commercial range limitations of narrow-body aircraft range used by traditional Short-haul LCCs. To this end, we are scheduled to receive delivery of 22 additional A330-300s up to 2017, and have a firm order for 10 A350-900s beyond that. With 5 A330-300s to be delivered for the remainder of 2013 and 7 A330-300s to be delivered in 2014, we believe we are poised to continue growing in the near future. Together with the broader AirAsia Group, we are working towards creating the world's first global, multi-hub LCC network, with complementary Short-haul and Long-haul networks.

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(1) *Based on comparisons performed against the top 10 FSCs and LCCs by operating revenue based in the Asia Pacific Region and the averages of the top 10 FSCs and LCCs by operating revenue based in Europe and North America, details as set out in the 'Key Financial and Operating Performance' table in Section 2.8 of S-A-P's report in Section 8 of this Prospectus*

(2) *Inclusive of ancillary charges for seat selection, 20kg baggage, meal and airport taxes*

We have a unique organisational culture and capability, balancing rigorous cost focus and discipline aimed at delivering the lowest unit operating cost; industry-leading reliability and on-time performance standards; and customer satisfaction levels comparable to the ratings achieved by Asia Pacific FSCs. In 2009, we won the Centre for Asia Pacific Aviation's ("**CAPA**") "Airline of the Year Award" jointly with AirAsia Berhad. At Skytrax's 2012 World Airline Awards, we were ranked second, after AirAsia Berhad, in the "Best Low-Cost Airline in Asia" category. In the Skytrax airline customer survey as of March 2013, we achieved a customer review rating higher than the average rating for major comparable FSCs in the Asia Pacific Region, according to S-A-P.

We believe we are a leader in the LCC industry in product innovation. Our innovations in the LCC market include introducing the world's first Premium FlatBed seats and pioneering transfer "Fly-Thru" connection services, as well as introducing portable in-flight entertainment units, and various seat assignment and upgrade options. Partly as a result of these innovations, we achieved, the highest and the fourth highest reported ancillary revenue per passenger of any airline in the world in 2010 and 2011, respectively, and continued to grow the same by 14.9% from 2011 to 2012. We achieved all of this while simultaneously maintaining what we believe is the lowest unit cost base among all airlines globally(3).

The above factors have been instrumental in fuelling our rapid growth. We have achieved a CAGR in passenger volume and RPK traffic of 76.8%, and 76.5%, respectively, from 2008 to 2012. Our revenue has grown from RM230.7 million in 2008 to RM2.0 billion in 2012, representing a CAGR of 70.9%. This growth includes our withdrawn routes, details of which are set out in Section 7.6.5 of this Prospectus.

We have achieved this growth despite the global economic downturn and other external shocks that have affected the global airline industry and the markets that we serve during this period. We believe that we are one of the fastest growing start-up LCC airlines in terms of RPK growth in the world, after taking into account our year of launch (2007) and our current RPK (in 2012), as compared to the RPK of other global LCCs based on publicly available data.

7.2 Competitive Strengths

We have achieved and maintained our position as a leading low-cost, Long-haul carrier in the Asia Pacific Region due to the following strengths:

7.2.1 We Have an Early Mover Advantage in the Low-Cost, Long-haul Segment Globally, which is Poised for Substantial Growth in the Coming Years

Early movers in the LCC industry, such as Southwest Airlines in North America, Ryanair and Easyjet in Europe and AirAsia in Southeast Asia, remain successful leaders in their respective markets, even after entry by other competing LCCs. We believe their success is largely driven by their larger aircraft fleet and route network and their established brand reputation and track record, which offer superior economies of scale and scope and better bargaining power with suppliers, and create barriers to entry for other LCCs. Early movers also have a significant advantage from experience accumulated over their years of operation, leading to an institutionalised knowledge base and skill set within their organisations, allowing them to keep growing at a faster pace and deploy resources more effectively than new entrants.

(3) *Based on comparisons performed against the top 10 FSCs and LCCs by operating revenue based in the Asia Pacific Region and the averages of the top 10 FSCs and LCCs by operating revenue based in Europe and North America, details as set out in the 'Key Financial and Operating Performance' table in Section 2.8 of S-A-P's report in Section 8 of this Prospectus*

We believe we have a similar opportunity to be a market leader in the global low-cost, Long-haul segment, which we believe is poised for substantial growth, similar to the levels that occurred in Short-haul air travel markets with the introduction of LCC services. The low-cost, Long-haul business model feeds off increasing globalisation, rising per capita income and increasing urbanisation, all of which allow more people to travel longer distances, and increased intra-regional business activities that lead to increased demand for business as well as leisure travel. Based on the demand we have stimulated in the markets we serve, we believe Long-haul air travel is similarly price-elastic and poised for comparable high growth with the introduction of lower fares for consumers.

According to S-A-P, we have the largest LCC wide-body aircraft seat capacity in the Asia Pacific Region and are expected to maintain this lead with the largest number of firm additional wide-body aircraft deliveries in the next five years. Having pioneered a breakthrough business model that has delivered the lowest known unit operating cost[(4)] and having achieved a track record of rapidly growing new passenger traffic in the markets we operate, we believe we have built up knowledge, skills and culture that will be hard to be replicated by others.

We believe our early mover advantage gives us a strong competitive advantage over new entrants in the segment and will enable us to continue to lead the low-cost, Long-haul segment in the coming years.

7.2.2 We Operate in Some of the Largest and Fastest Growing Aviation Markets in The World

We are well positioned to serve key growth markets around the world from our hub in Kuala Lumpur. Our strong positioning in the Asia Pacific Region in particular allows us to benefit from further expected growth in these markets. According to S-A-P, passenger volumes, measured in RPK, from 2011 to 2031 are estimated to grow at a CAGR of 7.6% on routes within Southeast Asia, 6.7% on routes within the Asia Pacific Region, 6.9% on routes within China, 7.2% on routes between the Asia Pacific Region and the Middle East, 7.7% between Southeast Asia and China, 5.1% between Southeast Asia and Oceania and 5.4% between Southeast Asia and Northeast Asia, compared to 5.0% globally.

With an estimated population of 3.4 billion in 2012, and projected growth of up to an additional 164.0 million by 2017 according to S-A-P, we expect the Asia Pacific Region to continue to be a large and attractive feeder market for our Long-haul routes. We believe that the interconnectivity among AirAsia Group carriers benefits us and other carriers of the AirAsia Group mutually, as it provides access to a larger market of potential passengers.

As part of the AirAsia Group, we offer our passengers the ability to connect our 14 current Long-haul destinations seamlessly with the feeder network of the AirAsia Group's Short-haul route network in Southeast Asia. The other carriers in the AirAsia Group serve 81 destinations around Asia from 16 hubs with a fleet of over 100 aircraft as at the LPD, making the AirAsia Group the largest LCC network in Asia. In 2012, 40% of our passengers connected to or from an AirAsia Group flight (including 5% of our passengers who connected between two AirAsia X flights) and this is expected to grow as the AirAsia Group network further expands.

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(4) *Based on comparisons performed against the top 10 FSCs and LCCs by operating revenue based in the Asia Pacific Region and the averages of the top 10 FSCs and LCCs by operating revenue based in Europe and North America, details as set out in the 'Key Financial and Operating Performance' table in Section 2.8 of S-A-P's report in Section 8 of this Prospectus*

Finally, we believe that we operate in an underpenetrated home market relative to other major Asian airports in terms of Long-haul flights. S-A-P reported that in the week of 4-10 March 2013, Kuala Lumpur had 512 departing Long-haul flights, compared to Hong Kong's 657, Bangkok's 940 and Singapore's 1,096. A key factor that drives growth in the Malaysian commercial aviation market is that Malaysia is a large domestic market with a population of 28.6 million and annual per capita GDP of USD9,700 in 2011. Malaysia's commercial aviation market is likewise supported by a tourism industry that saw 25.0 million tourist arrivals in 2012. Further, Malaysia was one of two Asian countries, and the only Southeast Asian country, in the global top 10 countries with the highest number of tourist arrivals in 2011 (source: S-A-P). Thus, we believe our home market provides additional growth opportunities for us to serve some of the world's largest and fastest-growing aviation markets.

7.2.3 We Believe That We Have the Lowest Unit Operating Cost Base of Any Airline in the World

We believe that we have the lowest CASK and CASK (excluding fuel) in the world(5). Our CASK and CASK (excluding fuel) was US¢3.74 and US¢1.90, respectively, for 2012, which was 67.3% and 75.3% lower, respectively, than the average CASK and CASK (excluding fuel) of the 10 largest FSCs based in the Asia Pacific Region that reported these figures. This low-cost structure is achieved through numerous strategies, including:

(i) High ASK Per Aircraft

We believe our fleet produces the highest ASKs per aircraft among LCCs and FSCs globally, at 1.7 billion ASKs per aircraft per annum in 2012, compared to an average 422.1 million ASKs per aircraft per annum for the top 10 LCCs based in the Asia Pacific Region (ranked by operating revenue) that report such data, and 550.1 million ASKs per aircraft per annum for the top 10 FSCs based in the Asia Pacific Region (ranked by operating revenue) that report such data, as reported by S-A-P.

(a) High Aircraft Utilisation

As a result of our Long-haul flights and network strategy, we maintain one of the highest aircraft utilisation rates in the Asia Pacific Region. In 2012, our average aircraft utilisation was 16.2 hours per day, approximately 48.6% higher than the average of the top 10 FSCs based in the Asia Pacific Region (ranked by operating revenue) that report this figure (source: S-A-P).

(b) High Seat Density

Each of our A330-300s offers a total of 377 seats in a 12-premium and 365-economy seat configuration, approximately 21.2% more seats than the next highest A330-300 seat density (311 seats total)(6) and 28.7% higher than the average (293 seats total) for carriers based in the Asia Pacific Region (excluding AirAsia X)(6) as reported by S-A-P.

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(5) *Based on comparisons performed against the top 10 FSCs and LCCs by operating revenue based in the Asia Pacific Region and the averages of the top 10 FSCs and LCCs by operating revenue based in Europe and North America, details as set out in the 'Key Financial and Operating Performance' table in Section 2.8 of S-A-P's report in Section 8 of this Prospectus*

(6) *Based on those carriers that operate a significant number of wide-body aircraft and that S-A-P believes provide a relevant basis for comparison*

(ii) Modern, Fuel Efficient and Focused Aircraft Type Fleet

Our operating fleet of 9 A330-300s (excluding the new A330-300 delivered to us in April 2013) had an average age of 4.9 years as of March 2013. Our relatively young operating fleet and high seat density, coupled with various fuel management techniques, further details of which are set out in Section 7.8.1 of this Prospectus, allowed us to achieve a fuel consumption rate of 2.27 litres and 2.21 litres per passenger per 100 kilometres for the year ended December 2012 and the 3 months ended 31 March 2013, respectively, which we believe, based on available industry evidence, is superior to the fuel efficiency of FSCs using similar wide-body aircraft.

By using a focused aircraft type fleet, we are able to reduce costs by maintaining a single pool of pilots, flight attendants, engineers and technicians who are certified for a certain aircraft type (i.e. type-rated), a streamlined spare parts inventory, and common maintenance tools and equipment. We are also able to interchange our aircraft on different routes much more efficiently.

(iii) High Labour Productivity From a Non-Unionised Workforce

We benefit from a highly skilled, motivated and productive workforce. Because our workforce is primarily based in Malaysia, where the cost of living is lower relative to other major cities in the Asia Pacific Region, and is non-unionised, we believe we have a labour cost advantage. We also maintain high labour productivity; our ASK per employee of 12.5 million in 2012 is more than 3 times higher than the average ASK per employee of Asian FSCs that report such data, and more than 2 times higher than the average ASK per employee of global LCCs (excluding AirAsia X) that report such data (source: S-A-P). Our staff costs in 2012 as a percent of revenue was 9.2%, compared to 16.2% at Cathay Pacific Airways, 14.8% at Singapore Airlines and 12.9% at Emirates (in their respective latest fiscal years as reported in each of these airlines' most recent annual report).

We have accumulated in-depth experience and expertise from our operations and years of combined LCC knowledge across the AirAsia Group. The inherent no-frills culture, which has been a hallmark of the AirAsia Group, has led us to adopt numerous innovative strategies in the areas of staff productivity and operating efficiency, unique to Long-haul flight operations. These strategies include lowered corporate overhead and streamlined in-flight service.

Our overhead cost is minimised through a lean overhead headcount and flat organisation structure with empowered work teams, relatively lower average base salary with performance incentives, modest office premises and efficient office space utilisation, prudent travel expense management, strict adherence to our procurement standard operating procedures, and an on-going six-sigma continuous improvement initiative.

We have streamlined our inflight service processes, from the packaging and serving of our food and beverage items (as individual items instead of the usual trays), having a high-percentage of pre-booked meals which reduces wastage and speeds up service time, as well as the use of disposable food and beverage containers and cutlery which expedites the cleaning process. This allows us to staff fewer flight attendants per flight on aircraft with higher seat density, resulting in a passengers-per-flight-attendant ratio that is approximately 60% higher than that of FSCs.

(iv) Streamlined Airport Operations

We maintain strict cost control over airport charges per flight, minimising these charges through higher aircraft utilisation hours (as faster turnaround times reduce parking charges), using higher seat density aircraft (resulting in lower landing, parking and other airport fees on a per-passenger basis), and multi-tasking, interchangeability of roles and service automation (resulting in lower ground-handling and check-in costs from lower staffing levels per aircraft turn). As a result, we believe we have a cost advantage over Asian FSCs in terms of airport and ground handling charges per flight.

(v) Lower Marketing and Sales Costs

Our marketing model is primarily direct-to-consumer, through Internet sales and direct offline sales, with Internet sales being the lowest cost distribution model available. In 2012, an average of 84% of our passenger tickets was distributed via the AirAsia Group's website, www.airasia.com. An additional 8% was distributed through our own sales channels, including via call centres and sales offices in the same year. Only approximately 8% of our passenger tickets are distributed through third-party channels including travel agents, which typically are of significantly higher cost. In contrast, we believe FSCs typically rely on third party channels for a much greater proportion of their sales.

We believe these cost-minimising strategies allow us to maximise profitability and cash flows on a sustainable basis.

7.2.4 We Have Developed a High-Quality Operating Model and Product

Even though we operate with a low unit cost, we strive to deliver a high-quality operating model to satisfy the needs of Long-haul passengers both in terms of comfort and reliability.

We operate one of the youngest wide-body fleets in the Asia Pacific Region. Our operating fleet of 9 A330-300s (excluding the new A330-300 delivered to us in April 2013) had an average age of 4.9 years as of March 2013, compared to an average of 9.1 years for the wide-body fleet of carriers based in the Asia Pacific Region (excluding AirAsia X)[(7)], according to S-A-P, and our newer aircraft offer a better cabin experience for passengers, with a 31 inch seat pitch, comparable to some FSCs, and Premium FlatBed seats, comparable to business class seats on some FSCs.

We are committed to world-class engineering and maintenance practices, as evident in our long term service agreements with a number of major servicers in the industry, further details of which are as set out in Section 7.8.2 of this Prospectus. As a result, we are able to operate with a high degree of operational reliability; whereby in 2011 and 2012, we achieved a technical dispatch reliability rate of 99.5% and 99.4%, respectively and were awarded the 2010-2011 Top Operational Excellence Award by Airbus for achieving the world's best technical dispatch reliability rates among all A330-300 operators worldwide in the small fleet category (less than 10 A330-300 aircraft for operations). The award by Airbus is evidence of our high-quality and time-efficient aircraft maintenance program, reflecting our ability to maintain and upgrade our aircraft and/or engines so as to be operationally ready throughout the year.

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(7) *Based on those carriers in the Asia Pacific Region that operate a significant number of wide-body aircraft and that S-A-P believes provide a relevant basis for comparison*

We also strive for excellence in daily operations and have established ourselves as one of the most punctual airlines in Asia, despite having the highest aircraft utilisation rates and tight turnaround times. In 2012, we achieved an on-time performance rate of 85.0%, compared to an average of 84.2% for FSCs based in the Asia Pacific Region[(8)] and an average of 81.4% for LCCs based in the Asia Pacific Region[(8)], according to S-A-P. For the 3 months ended 31 March 2013, we achieved an on-time performance rate of 88.0%.

Our simplified operations have also enabled us to achieve a mishandled baggage rate of 1.1 bags per 1,000 passengers, compared to a global industry rate of 8.8 bags per 1,000 passengers for the year 2012. Approximately 50% of all our flights arrive at our hub in LCCT, with its simplified baggage system - the bags are loaded from the aircraft, trucked directly and then off-loaded onto a single conveyor belt to be picked up by the passengers directly, which minimises the likelihood of our passengers' bags being mis-directed due to incorrect scanning of bar codes or malfunctioning bag tag readers. This is in contrast to the complex conveyor belts as seen in KLIA's main terminal and other similar airports. In addition, we do not practise code-sharing with other airlines, which would require bags to be transferred to a different airline's operations and tracking systems, especially when it involves transfers between different terminals at one airport, again minimising the risk of mishandling the bags. We expect to have a similar form of simplified operations at KLIA 2 after our relocation, as KLIA 2 is designed to be a dedicated LCC terminal similar to LCCT.

We believe that these strong operating attributes, together with our convenient and warm cabin services and attractive fares, have enabled us to garner high customer satisfaction ratings. According to S-A-P, we scored 7.6 out of 10 in the Skytrax airline customer review rating reported as of March 2013, compared to an average of 8.3 for 5-star airlines[(9)], an average of 7.0 for FSCs[(9)], and an average of 6.1 for LCCs (excluding AirAsia X)[(9)], based in the Asia Pacific Region. We also were acknowledged by Skytrax as being one of the world's best LCCs, placing second in Asia, in 2011 and 2012. We were also recognised, jointly with AirAsia Berhad, as Asia Pacific's Airline of the Year by CAPA in 2009. For other awards and recognitions we have received since we began our Long-haul service, see Section 7.4 of this Prospectus.

7.2.5 We Have One of the Highest Ancillary Revenue Per Passenger Levels Among Airlines That Report Such Figures

Our focus on developing innovative ancillary revenue streams has enabled us to achieve one of the highest ancillary revenue per passenger levels in the aviation industry. We produced ancillary revenue per passenger of USD46.07 in 2012 and USD48.82 for the 3 months ended 31 March 2013. According to S-A-P, our ancillary revenue per passenger in 2010 of USD38.92 was the highest and that of USD40.09 in 2011 was fourth highest among global airlines reporting ancillary income. These results can be attributed to a higher propensity for passengers on Long-haul flights to purchase food, merchandise and other products due to longer flight duration.

(8) *Based on the top 10 (ranked by operating revenue) FSCs/LCCs in Asia which reported financial and operating performance, that have available data for the latest 12 month periods*

(9) *Based on major FSCs/LCCs in the Asia Pacific Region that S-A-P believes provide a relevant basis for comparison and have available data*

Our high ancillary revenue per passenger can also be attributed to our innovation in providing new and attractive pre-flight and on-board purchase options to our passengers. Many of the ancillary products pioneered by us have subsequently been adopted by the other carriers of the AirAsia Group and other LCCs. At the same time, we also enjoy benefits from the other forms of ancillary products that have been developed in conjunction with the AirAsia Group and its partners, such as travel insurance with Tune Ins Holdings Berhad, AirAsia BIG Loyalty programme rewards, Expedia accommodation booking and Tune Talk prepaid mobile SIM cards. Please refer to Section 7.7.4 of this Prospectus for more details about our ancillary products.

Ancillary revenue growth has minimal incremental cost and, as a result, generates higher margins than passenger fare revenues. In addition, the wide selection of our ancillary products is an example of how we strive to achieve a high degree of passenger satisfaction. We believe our ability to generate ancillary revenue will be fundamental to our continued growth and success.

7.2.6 As a Member of the AirAsia Group, We Are Able to Benefit from the AirAsia Brand, Cross Selling Opportunities and the Group's Collective Purchasing Power

Since commencement of operations, we have leveraged the strength of the global AirAsia brand, which has enabled us to minimise both our start-up costs and time-to-market. The AirAsia brand enjoys global visibility and recognition, with branding campaigns including world class sporting properties such as Formula One Grand Prix through the current sponsorship of Team Caterham and past sponsorship of Team AT&T Williams, Barclays English Premier League through the current sponsorship of Queens Park Rangers and past sponsorship of Manchester United, the sponsorship of British MotoGP and the past sponsorship of the Oakland Raiders team in the National Football League. The AirAsia brand is also associated with the only LCC to win four consecutive "World's Best Low-Cost Airline" awards from Skytrax, from 2009 to 2012.

The AirAsia Group's digital media properties also provide us with a wide customer reach. We believe the www.airasia.com website is a top travel-related website in Asia and one of the most active e-commerce platforms in Asia, with over 9 million average monthly unique visitors and over 182 million average monthly page views in 2012 based on tracking by Google. There are over 6.9 million registered users of www.airasia.com to whom we send promotional emails. Finally, the AirAsia Group also actively promotes itself within and engages with users across social media platforms, such as Facebook, Twitter and Weibo, with 3.5 million fans, 1.1 million followers and 988 thousand fans, respectively, as at the LPD, making AirAsia one of the most active airline social media brands, as compared to the top 10 (ranked by operating revenue) FSCs and LCCs in the Asia Pacific Region which reported financial and operating performance.

All of the above have contributed a significant amount of public attention and have generated one of the highest levels of media coverage among airline brands in the Asia Pacific Region.

The AirAsia Group is also one of the largest aircraft purchasers in the world, with the world's largest ever airline order of Airbus's A320 aircraft as at the LPD. The combined economic size of the AirAsia Group affords us more bargaining power to negotiate aircraft and component purchases, leasing and financing contracts and fuel purchases. Additionally, shared services for information technology systems and training facilities lower our operating costs below what they otherwise would be if we were an independent stand-alone airline.

7.2.7 We Have an Experienced and Stress Tested Management Team and Shareholders

Our key management team, led by Azran Bin Osman Rani, has extensive managerial experience and technical competencies. He led the start-up team that developed the business plan, raised capital, secured relevant licences and approvals, acquired aircraft and launched our Long-haul operations. Prior to his appointment, he was the Senior Director of Business Development for Astro All Asia Networks plc, a leading Asian digital satellite television and radio broadcaster, and an Associate Partner for McKinsey & Company, a global management consultancy. He was also appointed by the Malaysian Minister of Tourism to the Board of Directors of the Malaysian Tourism Promotion Board (Tourism Malaysia) in May 2011. Our key management team comprises 7 officers with diverse backgrounds, including experience in the aviation industry. Moses Devanayagam, our Operations Director, has over 40 years of aviation industry experience related to engineering and ground handling operations.

Most of our key management team members, including Azran Bin Osman Rani, have been at our Company since the start of our Long-haul operations. Our management team is stress tested in light of our exposure in navigating through the global financial crisis, being able to secure aircraft financing on a stand-alone basis despite a very tight global credit market, managing the business in a period of extreme fuel price volatility in 2008, handling various natural disaster crises ranging from earthquakes in Japan and New Zealand, volcanic ash clouds over Europe, snowstorms in Europe, and floods in Queensland – all while growing the business rapidly from inception in 2007 to 2012.

We believe the experience and expertise of our key management team, and their track record of working together, have contributed significantly to our growing operations, which have generated an increase in revenue from approximately RM230.7 million in 2008 to approximately RM2.0 billion in 2012, representing a CAGR of 70.9%, which includes our withdrawn routes, details of which are set out in Section 7.6.5 of this Prospectus.

Our strong management team is guided by our experienced Board of Directors and shareholders, including AirAsia Berhad and Aero Ventures Sdn Bhd. Two of our Directors, Tan Sri Dr. Anthony Francis Fernandes and Dato' Kamarudin Bin Meranun, are the major shareholders and founders of both companies and bring a wealth of LCC experience from starting up AirAsia Berhad. Our Board of Directors is chaired by Tan Sri Rafidah Aziz, Malaysia's longest-serving Minister of International Trade and Industry, who contributes a wealth of international experience. Our Board includes representatives from Orix Airline Holdings Limited, a leading aircraft leasing company based in Japan, and Manara Malaysia I Limited, an investor consortium from the Middle East.

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7.3 Strategies and Future Plans

Our vision is to be a leading Long-haul LCC globally and to create, together with other carriers of the AirAsia Group, the first global, multi-hub low-cost carrier network. The main components of our strategy are to:

7.3.1 Expand Our Passenger Base by Growing our Route Network and increasing Our Hubs of Operations

The strategic principle underlying our choice of routes to operate is a focus on markets with the highest growth potential and where we can build a market leadership position. We primarily operate in the Asia Pacific Region, the world's largest and fastest growing aviation region. Our main hub in Kuala Lumpur has the largest LCC feeder network among airports in the Asia Pacific Region in terms of LCC flight frequencies and destinations, but is under-served for Long-haul routes compared to other Asian airports, providing significant growth potential.

Our expansion strategy from the current network of 14 routes in 7 markets we serve from Kuala Lumpur will be based on the following priorities aimed at creating a clear leadership position in the markets we serve:

(i) Stimulate Demand and Increase Frequencies on Existing Core Routes

Twelve of our current 14 routes are to major metropolitan cities, such as Sydney, Perth, Melbourne, Tokyo, Seoul, Beijing, Shanghai and Taipei. Due to the large population and existing market of air travellers in these cities, we believe we can profitably increase frequencies on these routes to 14 times weekly, or a double-daily service. Each of these core routes has already achieved load factors consistently higher than 80%, which signals strong demand that can absorb increased capacity. We currently plan to increase our frequencies to Sydney, Melbourne, Perth and Taipei to a double-daily service in the later part of 2013.

We also believe we can profitably increase frequencies to most other routes, such as Chengdu and Osaka, to 7 times weekly, or a daily service.

We believe increases in flight frequency will improve customer convenience and stimulate more transfer connections, while enabling us to be a market leader on these core routes. Further, we expect to benefit from capacity deployment on routes on which we already have an established operating base and from brand awareness in markets we already serve.

(ii) Open New Routes in Existing Core Markets

In addition to our current routes, there are other major cities in our existing core markets into which we may be able to expand. These include Adelaide in Australia, Nagoya and Fukuoka in Japan, and Chongqing and Xian in China.

We believe that expanding into new routes within existing markets will allow us to be more effective in marketing and efficient in operations given our established track record in these markets. Some of these cities are already being served by other members of the AirAsia Group, such as Chongqing and Xian by Thai AirAsia Co. Ltd and Nagoya and Fukuoka by AirAsia Japan Co. Ltd ("**AirAsia Japan**"), which means the consumers in these markets are already familiar with the AirAsia brand and service model, reducing the time required to build up our brand presence and product awareness.

(iii) Establish Routes in New Markets in the Medium Term

We intend to continue to look for new markets based on a clear set of criteria that include, among others, market size (catchment and propensity to travel), strength and growth of traffic, diversity of market demand (for example, two-way travel and having many different travel segments) and the current competitive environment. We believe that there are several potential new markets in South and Central Asia and North Africa and Eastern Europe that are within a commercially viable flying radius for A330-300 from our hub in Kuala Lumpur.

(iv) Create New Hubs

To support the growing demand for low-cost, Long-haul travel and to take advantage of the various Short-haul hubs and the network connectivity established by the AirAsia Group, we intend to establish new hubs outside Kuala Lumpur (for example, hubs in Indonesia, Thailand, Japan and the Philippines) where we can leverage the existing presence of the AirAsia Group, which we believe will provide us with additional feeder traffic. We believe the new hubs will increase our reach and provide additional cost savings from economies of scale, while allowing us to penetrate new markets, thus furthering our goal to link Asia to the world and become a global carrier. The criteria for establishing new hubs include the hub being located in a destination that can be marketable, having a catchment with a significant propensity to travel, being located within an airport with an established Short-haul feeder network, having established cargo operations, and providing profitable route opportunities and start-up costs that support our cost per ASK targets.

We plan to operate our first new hub outside Kuala Lumpur in Thailand through our newly established associated company, THAI AAX Co., Ltd., to tap into Thailand's well-known leisure market and to leverage on AirAsia's already established Short-haul feeder network in Thailand. Further details of THAI AAX Co., Ltd. are set out in Section 6.3.2(v) of this Prospectus.

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7.3.2 Grow Our Fleet of New, Fuel-Efficient Aircraft to Meet Passenger Demand and Our Expanding Route Mix

Our fleet plan is focused on the following concepts:

(i) Increasing our Fleet Size

We intend to increase our operating fleet size to 32 by 2016 through a mixed strategy of leasing and purchasing aircraft in order to execute our route development plan. In the event that demand further outstrips supply, we believe we will have access to additional aircraft, either through increasing our orders from Airbus or through sourcing from the secondary market, as we have demonstrated with our recent commitment to lease 6 additional A330-300s.

(ii) Maintaining a Fleet of Modern and Focused Type Aircraft

We currently operate a fleet of 10 A330-300s. On 3 May 2013, we took delivery of an additional A330-300, which is scheduled to commence operations in July 2013. We are also scheduled to take delivery of an additional 22 A330-300s up to 2017 and 10 A350-900s from 2018. We also have 2 A340-300s, which are sub-leased to other operators until December 2013. We intend to continue to sub-lease our A340-300s until the expiry of their lease contracts in 2015. We anticipate that we will fly only A330-300s and A350-900s going forward. We expect that the greater fuel efficiency and the longer range of the A350-900 will enable us to fly to destinations that would not be commercially feasible with our current fleet. Please refer to Section 7.5 of this Prospectus for further details on our fleet.

We plan to continue to review our fleet plan from time to time and may order more aircraft and may expand the types of aircraft utilised to respond to changes in the market place.

7.3.3 Strengthen the AirAsia Brand in Our Markets and Maintain High Customer Satisfaction

We intend to continue to invest in promoting the awareness and acceptance of the AirAsia brand in our markets through continued aggressive and innovative direct-to-consumer marketing (including marketing our brand, the appeal of our destinations, and our promotional fares), leveraging the branding, digital media and global sponsorship activities of the AirAsia Group, including using the AirAsia Expedia platforms and the AirAsia BIG loyalty programme, and increasing the profile and visibility of the brand on traditional and new media through engaging communications strategies.

While we plan to continue to increase our presence to the consumers who are active online looking for travel bargains and those who are already familiar with the AirAsia brand, we also intend to extend our marketing and promotional activities to other consumers who are not primarily considering Long-haul travel with an LCC. Strategies to engage these consumers include emphasising the attraction of our wide selection of destinations across Asia, particularly in partnership with tourism bodies, and showcasing the quality of the AirAsia X service, our new aircraft with high operational reliability and our highly-rated customer service.

While we expect to maintain price-leadership as our primary attribute, we intend to showcase our high-quality, efficient and friendly customer service to attract customers who are not already familiar with our services.

We have implemented a comprehensive customer management programme, including regularly collecting customer feedback from surveys, focusing on key passenger touch points and continuously improving our service delivery and customer advocacy and loyalty. We use a Net Promoter Score ("**NPS**") system to track customer satisfaction, wherein passengers are asked to rate on a scale of 1 to 10 how likely they are to recommend AirAsia X to their friends. Promoters are those rated between 9 to 10, and detractors are those rated between 1 to 6. The surveys are sent to passengers who agreed to receive promotional email, and are managed by a third party research agency on an on-going basis, with the sampling being undertaken in accordance to statistical norms.

The NPS method measures the difference between the percentage of customers who are promoters (typically those who are willing to recommend a product to friends and colleagues) and the percentage of customers who are detractors (typically those who are unwilling to recommend the product to friends and colleagues). The NPS is seen as proxy for customer satisfaction as studies have shown a strong correlation between a customer's willingness to recommend a product and the customer's satisfaction with the product.

In instances in which our NPS declines, we make every effort to take prompt action to identify and address issues. We intend to continue to seek to improve our NPS and to use NPS and other tools available to us to design our customer service strategy.

Finally, we expect the move to KLIA 2, with its much larger size, improved check-in systems, departure gates (directly at the aircraft parking bays, no longer requiring open-air walks to aircraft), transfer facilities, retail and food and beverage outlet selections and easy access to public transport, all of which will improve passenger experience significantly at our hub.

7.3.4 Maximise Passenger Revenue and Develop Innovative Ancillary Revenue Streams

Our revenue maximisation strategy includes:

(i) Capitalise on Route Maturity

A key factor that affects our overall passenger volume and profitability is the maturity of our routes, or the period of time that we service each particular route. Generally, when we begin service to a new route we experience lower load factors as the local population in the new market may be less aware of our services or the AirAsia brand. Therefore, we tend to start with lower fares initially to stimulate local demand for our services. As load factors improve as the route matures, we increase our fares to our standard levels.

(ii) Dynamic Revenue Management

We have implemented a revenue management system to manage our revenue from passenger seat sales. Through the system, we continually monitor and adjust our fares based on, among other data, the date of the flight, the forecasted and actual demand for the flight and how far before the departure date the ticket purchase is made. We analyse this data, as well as other data, including data related to our competitors' products, to try to maximise our revenue from passenger seat sales while remaining competitive.

Please refer to Section 7.7.1 of this Prospectus for a more detailed description of our revenue management system.

(iii) Maximising and Introducing New Sources of Ancillary Revenue

We currently generate ancillary revenues through various fees including, but not limited to, baggage handling fees, seat selection fees, sales of meals, in-flight entertainment, and travel insurance products for selected destinations. We intend to expand our ancillary revenue streams through enhancement of certain ancillary services, and through the introduction of innovative services and products such as increased and customised seating selection methods and other pre-departure add-ons.

We recently introduced our "Quiet Zone" and Red Carpet services, further details of which are set out in Section 7.7.4 of this Prospectus. In addition, we expect to increase payment options for inflight purchases through credit/debit card facilities and to offer pre-book pre-departure add-ons, travel visa application services and taxi booking services. We also intend to continue to further expand our ancillary revenue streams.

7.3.5 Continue to Implement Initiatives to Strengthen Our Operations Quality and Cost Structure

(i) Maintaining Cost Leadership

We intend to maintain our global cost leadership position by improving our fuel management practices that have already provided us with industry-leading consumption performance, improving engineering and maintenance services, purchasing, and inventory management as we gain more scale, minimising ticket distribution costs through greater reliance on the Internet as a distribution medium and reducing advertising expenditure through higher allocation to digital and owned media, and improving airport operations through efficiency gains and better use of technology.

(ii) Improving Operational Reliability

We intend to maintain our industry-leading operating reliability performance through continuous improvement of our current engineering reliability with a focus on using technology and data to drive predictive systems, strong internal quality assurance and external audit processes and on-going knowledge sharing and information dissemination to our staff and agents.

(iii) Implementing Integrated Safety Management

We comply with the highest international safety standards and practices, and have implemented an integrated safety management system. We integrate the key elements of the safety management system into our daily operations. The system is an integrated set of work beliefs, practices and procedures for monitoring and improving the safety of all aspects of our operations, identifying the potential for errors and formulating defences to reduce the risk that errors result in unwanted incidents or accidents. For a discussion of our safety management system, please refer to Section 7.9.1 of this Prospectus. We intend to continue to comply with the high international safety standards and practices.

7.4 Our Milestones and Key Achievements

Year	Milestones / Achievements
2007	• Launched Long-haul service, with the first flight to Gold Coast, Australia • Placed a firm order for 25 A330-300s
2008	• Received 2008 Budgie World Low Cost Airline Awards for Best Newcomer – this award recognises leaders, innovators and pioneers in the global low-cost aviation industry • Awarded the CAPA New Airline of the Year Award 2008 – one of the aviation industry's most prestigious awards
2009	• Together with AirAsia Berhad, awarded "World's Best Low-Cost Airline" by Skytrax, which each year makes such an award based on a poll conducted among millions of passengers worldwide • Joint winners, with AirAsia Berhad, of the CAPA Airline of the Year Award 2009, an award bestowed on the airline that has had the greatest impact on the development of the airline industry in the region, establishing ourselves as a leader and benchmark for others to follow • Placed a firm order for 10 A350-900s
2010	• Introduced Premium FlatBed seats, the first LCC in the world to do so • Together with AirAsia Berhad, awarded the "World's Best Low-Cost Airline" by Skytrax for the second consecutive year • Pioneered "Fly-Thru", a hassle-free connecting service at LCCT • Surpassed RM1 billion in annual revenue
2011	• The Asahi Shimbun, a widely circulated Japanese newspaper in Japan, awarded AirAsia X second place in the Transportation and Advertising category of the Asahi Advertising Award. We were the first low-cost, Long-haul carrier to receive this award • Awarded "Best Network Performance" at the inaugural World Routes Awards 2011, which is the first global award of its kind for route planning by an airline. Nominees are evaluated on, among other criteria, ability to deliver strong shareholders' return on the airline's assets through efficient network strategy • Ranked second as "Best Low-Cost Airline in Asia" by Skytrax, after AirAsia Berhad • Received Special Commendation from Smart Traveller, which awarded AirAsia X as Best Budget Airline 2011 • Together with AirAsia Berhad, awarded the Air Cargo Industry Customer Care Award 2011 from Air Cargo Week • In partnership with Optiontown began offering guests an "Upgrade Travel Option" which allows travellers to purchase, for a nominal fee, an option for an upgrade to a Premium Flatbed seat, subject to availability • Surpassed 5 million cumulative passengers carried since inception

Year	Milestones / Achievements
2012	• Awarded the Airbus Top Operational Excellence Award 2010-2011 for being the world's best A330-300 operator (small fleet category) • Ranked second as "Best Low-Cost Airline in Asia" by Skytrax, after AirAsia Berhad • Together with AirAsia Berhad, awarded the Air Cargo Industry Customer Care Award 2012 from Air Cargo Week • AirAsia X and Optiontown introduced an innovative new product called "Empty Seat Option", which allows guests to purchase, for a nominal fee, an option to have all three seats in a row to themselves, subject to availability • Entered into operating leases for 6 A330-300s • Named Best Low Cost Airline in the Travel Top 50 issue of *Wish,* the weekend magazine of The Australian • Together with AirAsia Berhad, awarded the "Rising Star Carrier of the Year" at Payload Asia Awards 2012 • Best New Route Launch (for Haneda) for the 2012 World Low Cost Airlines Congress Budgies Awards • Ranked 4th best in-flight meals at the 2012 inaugural Skyscanner Asia Pacific Food Awards (long-haul category)

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Note:

We describe our business model in the subsequent sections, grouped and sequenced as follows:

- Section 7.5 Our Fleet. Aircraft capacity and utilisation are our primary drivers of growth. This section covers our choice of aircraft (7.5.1), aircraft deliveries (7.5.2) and aircraft utilisation (7.5.3).
- Section 7.6 How We Deploy Our Fleet. This section covers our choice of primary hub (7.6.1), route selection (7.6.2), current routes (7.6.3), future routes (7.6.4) and withdrawn routes (7.6.5).
- Section 7.7 How We Fill Our Planes. This section covers the key drivers of our revenue generation, including revenue management (7.7.1), marketing, advertising and promotions (7.7.2), sales and distribution (7.7.3), ancillary products (7.7.4), cargo (7.7.5) and major customers (7.7.6).
- Section 7.8 How We Serve Our Passengers. This section covers fuel (7.8.1), engineering and maintenance (7.8.2), airport operations (7.8.3), people and training (7.8.4), and information technology (7.8.5). It also addresses intellectual property (7.8.6), property (7.8.7), major suppliers (7.8.8) and research and development (7.8.9).
- Section 7.9 How We Maintain Operational Integrity. This section covers the key areas that drive the integrity, reliability and compliance of our operations, and includes safety (7.9.1), security (7.9.2), insurance (7.9.3), interruptions to business and operations (7.9.4), regulations, including major licences and permits (7.9.5), and dependence on contracts, agreements or other arrangements (7.9.6).
- Section 7.10 Our Competition. A final section addresses our competitive landscape.

As part of our business, we rely on and benefit from our close association with AirAsia Berhad and the other members of the AirAsia Group. Our relationship with AirAsia Berhad is primarily governed under the Brand Licence Amendment and Renewal Agreement dated 21 July 2012 and the AirAsia Services Agreement dated 31 October 2007, as supplemented and amended in 22 June 2012.

Under the Brand Licence Amendment and Renewal Agreement, we have a non-exclusive and non-assignable licence to use and reproduce the "AirAsia" brand and trade name, including trade and/or service marks, for Long-haul operations. Please refer to Sections 7.9.6(i) and 11.1.2(i) of this Prospectus for further details of the licence and cost.

Under the AirAsia Services Agreement, AirAsia Berhad provides various services to us, which include (i) the sale of AirAsia Insure to our passengers; (ii) regulatory matters and infrastructure development support in China; (iii) commercial services comprising sales and distribution, sales support, sales offices, provision of sales channels and corporate branding services; (iv) information, communication and technology (ICT) services comprising email networks and telecommunications systems, the website www.airasia.com, reservation and booking systems, procurement systems and flight operations, which are largely provided by third party service providers engaged by AirAsia Berhad; (v) treasury services such as the negotiation of fuel pricing and analysis of hedging structures suitable for us, and other services to be provided on a per-usage basis such as audit and consulting services, security and shared resources. Please refer to Sections 7.9.6(ii) and 11.1.2(ii) for a more detailed description of the services provided to us by AirAsia Berhad and the cost of such services.

We also entered into other commercial arrangements with AirAsia Berhad and/or companies affiliated with AirAsia Berhad. Certain of these commercial arrangements involve the provision of services to us by AirAsia Berhad or its affiliated companies, while others involve the provision of services by us to AirAsia Berhad or its affiliated companies. A list of such services is set out below:

(i) Our appointment as a corporate agent to a company affiliated to AirAsia Berhad for the sale of AirAsia Insure, and the outsourcing of the management of AirAsia Insure to a company affiliated to AirAsia Berhad is set out in Sections 11.1.2(ix) and (viii) of this Prospectus, respectively. Following from the above, the sale of AirAsia Insure previously undertaken by AirAsia Berhad under the AirAsia Services Agreement has since been managed by the party under the aforementioned outsourcing arrangement;

(ii) Pilot secondment by AirAsia Berhad to us as set out in Section 11.1.1(vii) of this Prospectus;

(iii) Provision of airport management, ground handling, regulatory liaison and related services by us to AirAsia Berhad and its affiliated companies as set out in Sections 11.1.2(iii), (iv), (v), (xiv), (xv) and (xvi) of this Prospectus;

(iv) Provision of airport management, ground handling, regulatory liaison and related services by a company affiliated to AirAsia Berhad to us as set out in Section 11.1.1(xi) of this Prospectus;

(v) Provision of training services by a company affiliated to AirAsia Berhad to us as set out in Section 11.1.2(vi) of this Prospectus;

(vi) Purchase of prepaid mobile SIM cards from AirAsia Berhad for sale-on board our flights as set out in Section 11.1.2(vii) of this Prospectus; and

(vii) Provision of call centre services by a company affiliated to AirAsia Berhad to us as set out in Section 11.1.2(xiii) of this Prospectus.

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7.5 Our Fleet

7.5.1 Choice of Aircraft

We currently have an operating fleet of 10 A330-300s. Six of these A330-300s are held under finance lease and the remaining 4 are held under operating lease. Please refer to Section 12.9.4 of this Prospectus for a summary description of the terms of the finance leases. As of March 2013, the average age of our operating fleet of 9 A330-300s (excluding the new A330-300 delivered to us in April 2013) was 4.9 years. Our aircraft are all configured to maximise aircraft space and the number of seats available. Our typical A330-300 can carry 377 passengers, compared to the average seating arrangement of 293 passengers for carriers based in the Asia Pacific Region (excluding AirAsia X)[(10)] as reported by S-A-P. We have chosen the A330-300 as we believe it is the most efficient aircraft for our route network.

7.5.2 Aircraft Deliveries

We have committed to take delivery of 22 A330-300s up to 2017. We have also ordered 10 A350-900s, to be delivered from 2018 onwards, with an option to order 5 more.

The table below shows our current fleet and firmly ordered aircraft with their anticipated year of delivery:

	Aircraft Type			
Year	**A330-300**	**A340-300**	**A350-900**	**Total**
Current	11*	2	-	13
Remainder of 2013	5	-	-	18
2014	7	-	-	25
2015	5	(2)	-	28
2016	4	-	-	32
2017	1	-	-	33
2018 onwards	-	-	10	43
Total	33	-	10	

Note:

* *Includes an A330-300 that we took delivery of on 3 May 2013, which is scheduled to commence operations in July 2013.*

To support the delivery of the abovementioned aircraft, we have secured the relevant traffic rights (which are currently unutilised) for new routes which we intend to introduce, in addition to the unlimited traffic right access of the open skies agreements between Malaysia and certain countries we fly to, such as Australia (all destinations except for Melbourne, Sydney, Perth and Brisbane), Korea, China and Taiwan.

Notwithstanding the existing open skies agreements where Malaysia is a party as mentioned above, we, as an airline, are still required to submit applications to the Ministry of Transport of Malaysia and relevant authorities in the destination country before being granted traffic rights for routes and frequency of flights. In addition, we are also required to apply to the applicable airport authorities for available landing and take-off slots.

(10) *Based on those carriers that operate a significant number of wide-body aircraft and that S-A-P believes provide a relevant basis for comparison*

7.5.3 Aircraft Utilisation

According to S-A-P, our aircraft utilisation[11] was the highest among the top 10 Asia Pacific Region carriers (ranked by operating revenue) that disclose such data in their respective latest fiscal year. The key drivers of our aircraft utilisation rate are securing air traffic rights and landing and departure slots, maintaining an efficient aircraft turnaround time and ensuring a high-quality and time-efficient aircraft maintenance programme.

In 2012, our average aircraft utilisation was 16.2 hours per day, despite achieving 17.1 to 17.5 hours per day utilisation for certain aircraft rotations. For the 3 months ended 31 March 2013, we achieved an average aircraft utilisation rate of 16.5 hours per day. Our average utilisation is below our capability to operate at approximately 17.0 hours per day as we were not able to secure air traffic rights and slots suited to our aircraft planning. Our maximum aircraft utilisation is computed based on a generally accepted industry standard taking into account the number of hours our aircraft is under maintenance layovers and transit times in a 24-hour period. In other words, an average of 7 hours per day is needed for maintenance activities and turn-around activities, including passenger boarding, ground handling and flight preparation. With our new route network strategy and approvals for our new routes, we believe we can achieve our target aircraft utilisation rate going forward.

Even at a sub-optimal rate of 16.2 hours per day in 2012, which we believe to be one of the highest aircraft utilisation rates in the world, our rate is already approximately 48.6% higher than the average of the top 10 FSCs based in the Asia Pacific Region that report such figures. This is because the FSC model relies heavily on revenue from first and business class passengers who are more sensitive to convenient departure, arrival and connecting times. FSCs, therefore, adjust their flying schedules to suit these requirements, leading to significant aircraft idle time.

(i) Traffic Rights

Having sufficient air traffic rights in our target markets at least 4 months prior to commencement of operations is critical to enable us to match available capacity to the route. We need sufficient time to sell and fill up the aircraft to be able to efficiently use aircraft capacity that becomes available.

There are various factors that would affect the timeliness of obtaining the traffic rights, including but not limited to whether the rights are available on a bilateral basis (between Malaysia and the destination Government); whether the rights are limited or unlimited and whether other airlines in Malaysia are also applying for the use of the same rights.

One of the key upcoming developments is the ASEAN Open Skies policy, expected in 2015. We expect this will drive passenger traffic to and from, as well as within, Southeast Asia, thus providing additional feed to our Long-haul destinations.

For a discussion of how we secure traffic rights, please refer to Section 7.9.5(ii) of this Prospectus.

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(11) *Computed based on the average block hours per day per aircraft during the year, which is a generally accepted industry standard. Block hours are calculated by measuring the duration between the time of departure of an aircraft and the time of arrival at its destination*

(ii) Landing and Departure Slots

In addition to air traffic rights, the aviation or transportation authority of each country, together with the respective airports, also grants time slots for aircraft to arrive and depart from each airport. Available time slots correspond to the capacity of an airport's facilities and influence the ability of a carrier to land at or take off from an airport at a specified time and date.

Our ability to maximise our aircraft utilisation depends on securing both arrival and departure time slots that fit an optimal aircraft flying pattern (rotation). Some airports face slot congestion and have limited flexibility to offer slot choices, such as Beijing, Shanghai and Haneda. Others, such as Sydney and Gold Coast, operate with curfew constraints (typically from 11:00 p.m. to 6:00 a.m.). We need to have a good balance of airports without slot constraints to offset those with constraints to be able to achieve our target aircraft utilisation rate.

Slots are typically granted and renewed twice a year (April and October) for a 6-month period, at a global slots coordination conference. We send representatives to these conferences to meet airport slot coordinators and negotiate for the slot times that we need for our aircraft rotation.

(iii) Turnaround Time

Turnaround time, being the time between arrival at an airport and subsequent departure for the next destination, is another factor that drives utilisation. Using precision timing management, we are able to turn our aircraft around within 60 to 75 minutes. During the turnaround time, we disembark arriving passengers and offload cargo, re-fuel the aircraft, clean the cabin, re-stock in-flight supplies, embark passengers and load cargo for the next flight.

In 2012, we achieved an on-time departure rate of 85%, with weather and air traffic control congestion being the two main factors causing delays.

(iv) Maintenance

We also focus on implementing a high-quality and time-efficient aircraft maintenance programme to ensure that our aircraft operate with industry-leading reliability rates and to minimise down-time from scheduled or unscheduled maintenance work.

Down-time from scheduled maintenance work primarily comprises two main aircraft checks. 'A' checks take approximately 8-12 hours and are done at 800 flying hour intervals, typically once every one-and-a-half months, and focus on visual inspections and reviews of maintenance logs to clear any recorded defects. We use an efficiency rate as a measure to determine the time-efficiency of our aircraft maintenance programme. The rate is the actual flying hour intervals for maintenance relative to the maximum permissible flying hour interval between checks. In 2012, we achieved an 'A' check efficiency rate of 99.6% (which means that we conducted 'A' checks on our aircraft, on average, every 797 hours as compared to the maximum 800 hours that we are allowed to fly before 'A' checks must be conducted), with a low average "open defect" list of less than 1 per aircraft, as acknowledged by civil aviation inspectors during regular audits. 'C' checks are done at 18-month intervals, and each 'C' check takes approximately one week to complete, with a longer 24-day check every 72 months. In 2012, we achieved a 'C' check efficiency rate of 93.7%.

By having a strong maintenance programme focused on predictive and preventive maintenance, we attempt to minimise unscheduled maintenance downtime and increase aircraft utilisation.

7.6 How We Deploy Our Fleet

7.6.1 Choice of Primary Hub

We currently operate out of the LCCT in Kuala Lumpur and have designated LCCT as our primary hub. The LCCT is the main gateway for low-cost carriers into Malaysia and is located approximately 70 kilometres from the heart of Kuala Lumpur. We selected the LCCT as our hub due to its extensive LCC feeder market, with up to 1,401 flights per week serving 73 destinations in the week of 4-10 March 2013, according to S-A-P. As a LCC terminal, it also benefits from lower airport charges (landing charges, parking charges, check-in counter charges, and passenger and security charges) and lower passenger service tax. These savings are translated into lower fares for our passengers.

In addition, KLIA is underserved in terms of Long-haul routes relative to airports at Singapore, Hong Kong and Bangkok. As such, KLIA presents more growth opportunities. S-A-P reported that in the week of 4-10 March 2013, Kuala Lumpur had 512 departing Long-haul flights, compared to Hong Kong's 657, Bangkok's 940 and Singapore's 1,096.

We are scheduled to move our operations from the LCCT to KLIA 2, a brand new LCC terminal currently under construction. With an expected capacity of 45 million passengers per annum upon completion (versus capacity of 15 million at the present LCCT), we anticipate that the move will allow us to serve more passengers at any one time and service more routes and destinations. We expect that the enhanced customer service and comfort levels at KLIA 2 will make it an attractive terminal for us to use as our hub as compared to the existing LCCT. We also expect KLIA 2 to provide the capacity to grow our flight movements (arrival/departure) at peak times, and help improve commercial performance, overcome operational constraints that currently exist at LCCT, decrease congestion, improve on-time performance at peak times and allow room for further expansion. KLIA 2 should also provide better feeder opportunities from Short-haul networks with a significantly larger transit passenger facility. We also expect KLIA 2 to have better and more convenient accessibility to the city centre via the express rail link service, among others. It is also planned to have additional facilities for cargo.

7.6.2 Route Selection

Our route strategy, as well as our focus on our core markets, is designed for us to capitalise on intra-Asia Pacific traffic growth opportunities, maximise our brand and economies of scale in those core markets and build a market leader position in terms of capacity, which complements our feeder traffic demand. By launching flights to multiple cities within a certain market, we aim to maximise our marketing and branding investments and return on our set up costs in that market.

Our decisions with respect to our route network are in part governed by the availability of air traffic rights and landing and departure slots, as certain limitations on their availability may prevent us from increasing flight capacity to more profitable or higher demand destinations.

We generally take into account 3 primary factors when analysing our route network and evaluating new routes: (i) the strategic fit of the route within our existing network and its potential to increase passenger demand across our entire network, (ii) the overall potential for passenger demand for the route, based on market size, catchment and demographics for the route, and competition from other airlines that service the route, and (iii) the feasibility of establishing the route and the costs and potential profit associated with the route. Factors that have driven us to withdraw certain routes include: (i) increases in fuel costs which made certain of our longer flights less economically viable, (ii) local taxes and fees, including local government taxes and carbon taxes, that increase operating costs, and (iii) local economic conditions, such as the economic downturn in the eurozone and the challenging economic and business conditions recently seen in Iran, and other matters that may cause a reduction in passenger traffic from one or more of our existing markets.

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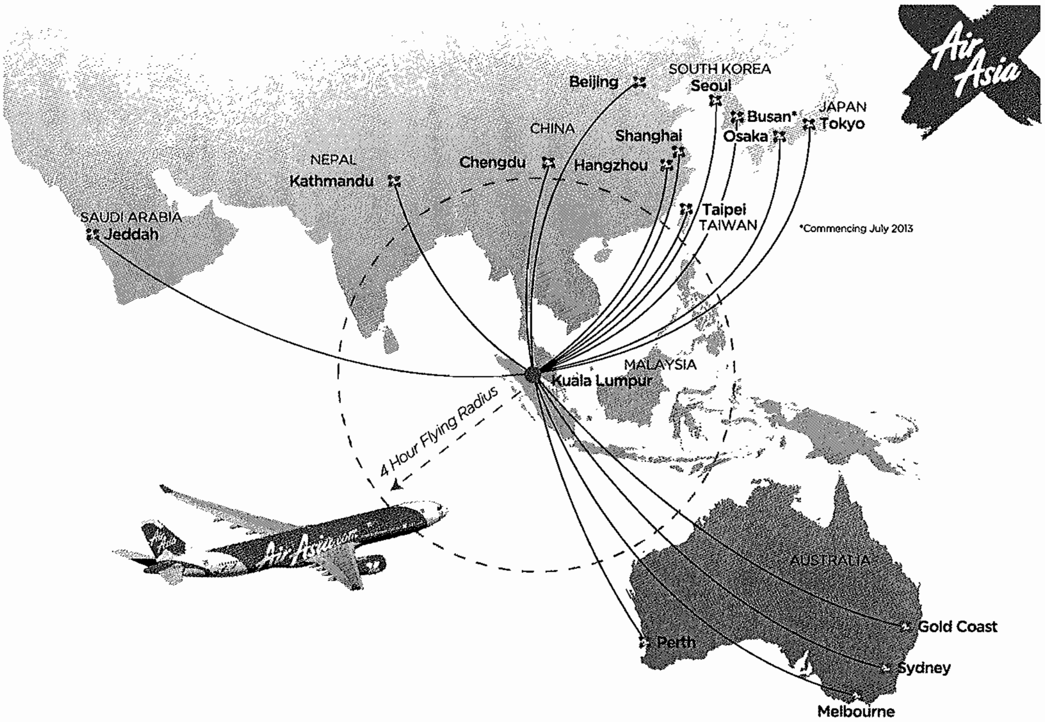
7.6.3 Current Routes

As at the LPD, we operated regular scheduled services on 14 point-to-point routes covering 7 countries, with an additional destination (Busan) scheduled to commence in July 2013. We focus on providing Long-haul services and, therefore, all our destinations are at least 4 hours flight time and at least 1,700 nautical miles from our hub.

The following route map illustrates our scheduled route network as at the LPD.



The table below indicates the frequency of scheduled flights that we operate or plan to operate to the various destinations as at the LPD.

Destination City	Route Commencement Date	Current or Planned Flights/Week
Gold Coast	2 November 2007	5x
Perth	2 November 2008	9x
Melbourne	12 November 2008	7x
Sydney	1 April 2012	7x
Hangzhou	4 February 2008	5x
Chengdu	20 October 2009	5x
Beijing	23 June 2012	7x
Shanghai	19 February 2013	6x
Taipei	1 July 2009	7x
Tokyo	9 December 2010	7x
Osaka	30 November 2011	4x
Seoul	1 November 2010	7x
Kathmandu	3 July 2012	4x
Jeddah	16 February 2013	3x
Busan	15 July 2013	4x

7. BUSINESS OVERVIEW (cont'd)

Through our association with the AirAsia Group, passengers on our flights may connect to destinations across the Asia Pacific Region on routes served by other AirAsia Group carriers. Similarly, we are also able to more readily access the other AirAsia Group carriers' passengers in order to fill our flights departing from our hub in Kuala Lumpur. The entire AirAsia Group network, consisting of 6 airlines serving 91 destinations from 16 hubs as at the LPD, gives us access to a much larger passenger base than the markets that we serve directly. The following illustrates the destinations served by the AirAsia Group as at the LPD.

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7.6.4 Future Routes

We currently conduct substantially all of our operations and generate substantially all of our revenue, in the Asia Pacific Region. In the near term, we expect to focus on markets with strong prospects of profitability and prioritise capacity towards launching new routes and expanding frequency into Australia, China, Taiwan, Japan and Korea. In addition to taking advantage of the anticipated extensive growth opportunities in traffic within the Asia Pacific Region, the rationale for the focus on these core markets is:

(i) to build a strong market leadership position in selected regions, instead of having a smaller presence which results in limited service options for passengers and less pricing flexibility;

(ii) to maximise marketing and brand awareness in existing markets;

(iii) to spread fixed operational costs over a greater passenger base to reduce fixed costs per passenger; and

(iv) to enhance schedule choices for passengers, which we expect would generate strong levels of demand.

7.6.5 Withdrawn Routes

Based on our continual analysis of our route network, we have withdrawn from certain routes and markets to improve our overall route network and improve our results of operations. In January 2012, we announced our withdrawal from the London, Paris, Mumbai and Delhi routes. Subsequently in March 2012, we announced our withdrawal from the Christchurch route. The table below sets out when we commenced and ceased flight services to the withdrawn routes.

Withdrawn Routes	Commencement Date	Cessation Date
London	11 March 2009	16 April 2012
Paris	14 February 2011	31 March 2012
Mumbai	6 May 2010	1 February 2012
Delhi	4 August 2010	23 March 2012
Christchurch	1 April 2011	31 May 2012

Following the withdrawal from these routes, all affected customers were offered refunds, re-routes through one of our destinations, or reaccommodated via another airline.

(i) We deployed our A340-300s on the London and Paris routes due to the extended range and longer flight times of those routes, which could not be met by our A330-300s. However, the 10-year older A340-300s were less fuel efficient than our brand new A330-300s, which was further compounded by sharp increases in fuel prices since we commenced flights to London in March 2009 and to Paris in February 2011.

The eurozone crisis negatively impacted the European market for leisure air travel. In addition, the European Union applied the European Union Emission Trading System (ETS) to the aviation sector commencing from 1 January 2012, which would have required us to pass on the related emissions costs/tax to our passengers. Attempts to increase fares to reflect the higher operating cost demonstrated the high price elasticity of travel, with demand falling. Operating efficiency, rising fuel costs, the depressed leisure air travel market in Europe and emissions costs to our passengers combined to make the London and Paris routes uneconomical and no longer viable for us to operate.

For the years ended 31 December 2011 and 31 December 2012, the London and Paris routes collectively accounted for approximately RM351.4 million and RM103.3 million of our revenue respectively, and approximately RM92.7 million and RM65.9 million of our LBT respectively.

(ii) Our load factors on the Mumbai and Delhi routes were relatively low, averaging approximately 72%, since we started servicing these routes. These routes came under additional pressure when the Malaysian government removed visa-on-arrival facilities in August 2010 soon after the routes were launched. This placed Malaysia at a significant disadvantage vis-à-vis Thailand and Singapore, which offer Indian tourists convenient visa-on-arrival facilities and visa-free entry, respectively. Demand for flights to and from India was expected to be further weakened due to massive increases in airport taxes, fees and handling charges, which were already high, as compared to our destinations in Australia. For example, in May 2012, Delhi airport increased airport fees by 346%. These increases, occurring in a high fuel price environment, made the economics of our already loss-making Delhi and Mumbai routes even less attractive.

For the years ended 31 December 2011 and 31 December 2012, the Mumbai and Delhi routes collectively accounted for approximately RM154.6 million and RM28.6 million of our revenue respectively, and approximately RM36.5 million and RM4.4 million of our LBT respectively.

Although AirAsia Berhad is currently in the process of establishing a low-cost airline in India together with 2 other joint venture partners via AirAsia (India) Private Limited ("**AirAsia India**") which is expected to commence operations in September 2013 (source: AirAsia Berhad's announcement dated 18 April 2013), we do not have any immediate or specific plans to recommence servicing flights to India. However, we do foresee opportunities that we may be able to leverage on the potential of AirAsia India's feeder network with that of our overall business model and strategy. Any such decision to recommence flights to India would be subject to factors that we typically take into account in determining and evaluating new routes, such as strategic fit with our existing route network, passenger demand and potential, competition as well as the economic feasibility to establish any routes to India, including the success of AirAsia India's operations and network.

Under the Indian Air Transport guidelines, any Indian air transport undertaking shall be eligible to apply for operation of international scheduled air transportation, if it is in possession of, amongst others, a minimum of 5 years' experience of continuous operation of domestic scheduled air transport services.

(iii) Christchurch is mainly a leisure destination for Malaysians; a series of earthquakes in Christchurch, especially the one in February 2011 which resulted in severe damage to the city and significant fatalities shortly before our inaugural flight, and the post-earthquake rebuilding efforts reduced Christchurch's attractiveness as a tourist destination. Although we needed to offer promotional fares to stimulate demand, increasing fuel costs limited our ability to offer low fares on that route. In a high fuel price environment, the Christchurch route became an unprofitable route for us to operate.

For the years ended 31 December 2011 and 31 December 2012, the Christchurch route accounted for approximately RM78.5 million and RM48.1 million of our revenue respectively, and approximately RM37.5 million and RM12.7 million of our LBT respectively.

Following from the withdrawals, we have fully redeployed the A330-300s (used on the Mumbai, Delhi and Christchurch routes) and other resources to new routes and increased frequencies to destinations with better market potential, while the A340-300s that previously served the London and Paris routes are currently wet-leased. The Malaysian government granted us approval in December 2011 to commence flight services to Sydney, Australia (a destination for which we had lobbied intensely since 2009), and approval in January 2012 to increase flight frequencies to Haneda, Japan. These route approvals created new opportunities for us to service markets that offer greater prospects and that are consistent with our current route focus. Our decision to exit from unprofitable routes and redeploy aircraft to new routes resulted in improved operating cost efficiencies and consolidation of the network to focus on our core markets of Australia, China, Taiwan, Japan and Korea where we have established stable, profitable routes with an infrastructure that supports low-cost services. We intend to focus on opening up new routes within these markets, as well as increasing frequencies on existing routes.

In addition, on 15 October 2012, we terminated our service to Tehran (which we commenced service on 4 August 2010) due to the challenging economic and business conditions in Iran, including the volatility of the Iranian currency. We do not have any immediate plans to resume service to Tehran. Consistent with aircraft previously deployed to our other withdrawn routes, we have re-deployed our aircraft previously serving our Tehran route to increase frequencies in other more profitable markets since December 2012.

7.7 How We Fill Our Planes

7.7.1 Revenue Management

(i) Route Maturity

A key factor that affects our overall passenger volume and profitability is the maturity of our routes, or the period of time that we service each particular route. Generally, when we begin service to a new route we experience lower load factors as the local population in the new market may be less aware of our services or the AirAsia brand. Therefore, we tend to start with lower fares initially to stimulate local demand for our services. As load factors improve over time, we increase our fares to our standard levels.

(ii) Fare Pricing Scheme

We have a multiple fare pricing structure, and fares are based on one-way travel. We utilise a revenue management system, comprising of airRM, InFare and NewSkies 3.2 Reservation System (see Section 7.8.5 of this Prospectus for a description of these software programmes), to dynamically manage our revenue from passenger seat sales. Through the system, we continually monitor and adjust our fares based on, among other data, the date of the flight, the forecasted and actual demand for the flight and how far before the departure date the ticket purchase is made. We analyse these data, as well as other data, including those related to our competitors' products (flight frequency, timing, aircraft type, market share, choice of seat class) to optimise our revenue from passenger seat sales while remaining competitive.

7.7.2 Marketing, Advertising and Promotions

(i) General Marketing, Advertising and Promotions

We are focused on raising public awareness of our main value proposition that people can now fly further with cheaper prices than those offered by full-service carriers. Our tagline, "Now Everyone Can Fly Xtra Long!" emphasises our mission to be the foremost low-cost, Long-haul airline globally. We have maximised our global brand recognition and awareness of the services that we provide by a mix of high profile sponsorship, effective marketing and promoting brand awareness.

Since commencement of operations, we have leveraged the strength of the global AirAsia brand, which has enabled us to minimise our start-up costs and time-to-market. The AirAsia brand enjoys global visibility and recognition, with branding campaigns including world class sports properties such as Formula One Grand Prix through the current sponsorship of Team Caterham and past sponsorship of Team AT&T Williams, Barclays English Premier League through the current sponsorship of Queens Park Rangers and past sponsorship of Manchester United, the sponsorship of British MotoGP and the past sponsorship of the Oakland Raiders team in the National Football League.

We conduct direct-to-consumer marketing by advertising and marketing on various platforms including in print, on air, on the ground, via publicity from the press and digital/online marketing. The AirAsia Group's digital media properties also provide us with a wide customer reach. We believe the www.airasia.com website is a top travel-related website in Asia and one of the most active e-commerce platforms in Asia, with over 9 million average monthly unique visitors per month and an average of 182 million monthly page views in 2012 based on tracking by Google. There are over 6.9 million registered users of www.airasia.com to whom we send promotional emails. Finally, the AirAsia Group also actively promotes itself within and engages with users across social media platforms, such as Facebook, Twitter and Weibo, with 3.5 million fans, 1.1 million followers and 988 thousand fans, respectively, as at the LPD, making AirAsia one of the most active airline social media brands, as compared to the top 10 (ranked by operating revenue) FSCs and LCCs in the Asia Pacific Region which reported financial and operating performance.

We also engage our passengers through contests, such as competitions to name our new aircraft, innovative destination marketing and aggressive destination and price-based marketing, ground activities and partnerships with various government and non-governmental entities. We are also able to leverage our relationship with the AirAsia Group by collaborating in events such as the Football Masters and the Barclays Premium League Trophy Tour, which allows us to expose and market our services to a wider audience. Finally, we actively participate in travel fairs and events around the world to increase brand exposure to the public.

In 2012, 32% of our advertising expenses were allocated to the digital space, 26% to print, 16% to outdoor, 12% to production, 9% to television and radio and 5% to events and sponsorships. We utilise the digital media platforms as our primary marketing channel.

(ii) Our Shareholders' Benefit Programme

INVESTORS ARE ADVISED TO READ, FULLY UNDERSTAND AND CAREFULLY CONSIDER THE CONTENTS OF THIS PROSPECTUS IN ITS ENTIRETY, AND NOT BASE YOUR INVESTMENT DECISION IN OUR SHARES SOLELY ON OUR SHAREHOLDERS' BENEFIT PROGRAM OR THE INAUGURAL BENEFIT, AS DESCRIBED BELOW.

As part of our promotional activities to create further public awareness and in conjunction with our Listing, we have also implemented the Shareholders' Benefit Programme as an incentive programme for our shareholders. The Shareholders' Benefit Programme is introduced to give recognition and appreciation to our shareholders for their continued support and for being part of the AirAsia X family. Shareholders who qualify under this Shareholders' Benefit Programme will be entitled to take part in and enjoy the benefits offered, such as AirAsia X zero fare return air tickets under our Inaugural Benefit, subject to the fulfilment of eligibility as well as the applicable terms and conditions of such benefits.

We believe the Shareholders' Benefit Programme will serve as an effective marketing initiative and tool to encourage our shareholders who qualify to travel with AirAsia X instead of with our competitors, depending on the nature and type of benefits extended. This may result in improving our Company's business as well as of our passenger load factor.

All our shareholders, except for those who are directors and employees of the AirAsia Group, are able to participate in our Shareholders' Benefit Programme and to enjoy any such benefits introduced, subject to applicable terms and conditions including any eligibility criteria being met. The programme will be effective from the date of Listing until terminated by our Board, at our Board's sole discretion.

Certain benefits under our Shareholders' Benefit Programme may be offered or introduced from time to time in whatsoever form or nature throughout the duration of the programme. We also reserve our rights to introduce, amend or withdraw any benefits as well as any eligibility criteria in connection with the Shareholders' Benefit Programme from time to time, at our sole discretion, save for the Inaugural Benefit including its eligibility criteria and associated terms and conditions.

To enquire about available benefits, eligibility criteria or any other general enquiries relating to our Shareholders' Benefit Programme, shareholders can contact us at:

(a) aax_shareholder@airasia.com; or

(b) The AirAsia X Premium Line (600 85 888) during operating hours from 9.00 a.m. to 6.00 p.m. Monday to Sunday.

For our IPO, we have introduced the Inaugural Benefit which entitles eligible shareholders to zero fare return air tickets to any AirAsia X's destinations originating from Malaysia. Eligibility to redeem such AirAsia X zero fare return air tickets is dependent on our shareholders holding at least 10,000 or 100,000 IPO Shares and continuing to hold such minimum number of IPO Shares for a pre-determined timeframe. The detailed terms and conditions and eligibility criteria applicable to the Inaugural Benefit are set out in Annexure C of this Prospectus.

The Inaugural Benefit will result in an impact to our financial statements going forward, further details of which are set out in Note 2.3(b) of Appendix A of the pro forma consolidated balance sheet in Section 12.22 of this Prospectus.

While the Inaugural Benefit will be exclusive and remain unchanged to those shareholders who are eligible during the duration of the Inaugural Benefit, there is no assurance that the benefits in the form of AirAsia X zero fare return air tickets will not apply to other benefits which may be introduced under the Shareholders' Benefit Programe in the future. Such other benefits may include AirAsia X zero fare air tickets substantially similar to the Inaugural Benefit but governed by different eligibility criteria and other terms and conditions. Shareholders who qualify under the Inaugural Benefit may or may not also qualify for any other benefits to be introduced under our Shareholders' Benefit Programme.

There is also no assurance that we will introduce any other forms of benefits under the Shareholders' Benefit Programme in addition to that of the Inaugural Benefit as any introduction of new benefits is dependent on its nature and type; market factors; AirAsia X's marketing and promotional plans or activities; operational considerations; and any other factors. Furthermore, although all shareholders, except for those who are directors and employees of the AirAsia Group, are able to participate in our Shareholders' Benefit Programme, there is no assurance that every or any such shareholder will ultimately receive any associated benefits as the receipt of such benefits may be subject to eligibility criteria including any other terms and conditions. If in doubt, shareholders are advised to contact us at the above contact details for further information regarding the benefits, eligibility criteria and terms and conditions for any of our benefits under the Shareholders' Benefit Programme.

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7.7.3 Sales and Distribution

We market our services and execute our sales transactions through three categories of channels: direct online sales, direct offline sales and third-party sales. The table below shows the percentage of seats sold through each channel in 2010, 2011 and 2012.

	Percentage of seats sold		
	Year ended 31 December		
Description	**2010**	**2011**	**2012**
Direct Online Sales	87%	86%	84%
Direct Offline Sales	10%	4%	8%
Third Party Sales	3%	10%	8%
Total	**100%**	**100%**	**100%**

(i) Direct Online Sales

Sales from our direct online channels, which account for the largest proportion of our total sales, are made up of Internet and mobile sales.

For Internet sales, we share the www.airasia.com website with the broader AirAsia Group, on which our fares are displayed and from which our flight tickets may be purchased. The sharing of the portal with the AirAsia Group provides us with access to a wider customer base, particularly to passengers of other carriers of the AirAsia Group. Over the period from 2010 to 2012, an average of 86% of our total flight reservations were made through the website. In order to attract more passengers to purchase their tickets online, the lowest promotional fares are only made available on the website.

Our passengers may also purchase their flight tickets on their mobile phones via our mobile web portal at http://m.airasia.com. Mobile phone subscribers with Internet access are able to access the Internet through their mobile phones and make reservations on that web portal.

In addition, our partnership with Expedia enables us to sell our tickets on Expedia's website and the AirAsiaGo website and to provide tour packages sold in a bundle together with our air tickets.

(ii) Direct Offline Sales

Our direct offline sales are made through a few methods, including call centres and sales offices at airports.

We utilise the AirAsia Group sales network in Southeast Asia to facilitate direct sales of our tickets. The AirAsia Group sales network is made up of 64 travel service centres that are AirAsia-exclusive travel agents, 45 airport sales counters and 18 sales offices.

In addition to sales offices, we maintain call centres to assist passengers who wish to book their flights by phone. Our call centres based in Kuala Lumpur and China provide support to our passengers in various locations across the Asia Pacific Region. We are able to provide voice support in our passengers' local language; a passenger from a particular country in which we operate need only call the local number for support in their local language. We currently provide telephone support in Malaysia, Singapore, Australia, and with local language in Japan, Korea, and China and Taiwan. Our passengers are also able to use call centre lines in Thailand, Indonesia, Philippines, Hong Kong, Macau and India.

(iii) Third Party Sales

Our flight tickets are also available for sale through third party channels including travel agents, travel fairs and corporate accounts.

We currently maintain a network of more than 2,000 "skyagents" (which are non-exclusive travel agent partners which may sell seats on other airlines), of which 95% are located in the Asia Pacific Region, to assist us in ticket sales.

Aside from the above, we also distribute tickets through global reservations systems operated by Amadeus IT Group, S.A., Abacus International Pte Ltd and TravelSky Technology (Hong Kong) Ltd., which allow travel agents worldwide to access our fares, schedules and ancillary products.

7.7.4 Ancillary Products

As a low-cost carrier, our business model is to offer our passengers fares that are substantially lower than those offered by FSCs and, at the same time, cater to our more discerning passengers by giving them the option to purchase any of our innovative ancillary products and services. By providing ancillary products on an as-demanded basis, we minimise waste and weight and our passengers do not have to absorb the cost of products they do not desire, by paying higher, all-inclusive fares.

We are the first low-cost, Long-haul carrier globally to install a flat-bed seating class, introduce tiered baggage fees, provide in-flight entertainment, offer pre-booked food options and offer seat selection options. We pioneered the "Fly-Thru" service in the low-cost carrier market, which allows for seamless connection without having to obtain a visa when transiting at KLIA to other AirAsia Group destinations outside Malaysia.

We produced ancillary revenue per passenger of USD46.07 in 2012 and USD48.82 for the 3 months ended 31 March 2013. According to S-A-P, our ancillary revenue per passenger of USD38.92 in 2010 was the highest, and our ancillary revenue per passenger of USD40.09 in 2011 was the fourth highest of the global airlines that reported such revenue.

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(i) Seat Fees

Seat fees include fees for Pick-a-Seat (which allows passengers to pre-book seats up to 1 hour before scheduled departure time) and Hot Seats (seats with extra legroom). In addition, through our business partner Optiontown (a third party travel option provider) we offer our passengers preferred seating options such as an Upgrade Travel Option (by which guests can bid for an upgrade to a Premium FlatBed seat at a fraction of the premium fare, subject to availability 4 hours prior to scheduled departure time) and an Empty Seat Option (by which a guest can purchase, for a nominal fee, an option to have all 3 seats in a row to themselves, subject to availability 4 hours prior to scheduled departure time).

Our "Quiet Zone" is an additional option exclusively for guests who are above age 12. The "Quiet Zone" is located at the front of the aircraft directly behind the Premium Flatbed area. The "Quiet Zone" features a quieter ambiance with soft lighting, offering a more relaxing cabin atmosphere. The "Quiet Zone" option may be selected in the pick-a-seat option during the booking process, with no extra charge currently imposed for this option except for the standard Pick-a-Seat fee.

(ii) Change Fees

Passengers may change their flights up to 48 hours before the scheduled departure time subject to payment of a change fee per passenger per sector (not applicable to Premium fares) and any applicable difference.

(iii) Convenience Fees (now known as Processing Fee)

We charge a non-refundable processing fee for online payment through credit, debit or charge cards. The fee is charged per guest per sector of travel and only applies to the initial booking and not to changes to existing bookings. Processing fee does not apply to direct debit payments.

(iv) "Fly-Thru" Fees

In October 2010, we began offering "Fly-Thru" service to our passengers. By purchasing this option, passengers have the convenience of transferring between two different flights of the AirAsia Group via the transit hall with no transit visa required. Their bags are automatically transferred from their first flight to the second flight without the need to re-check baggage for their second flight. Since June 2012, our "Fly-Thru" service has been extended to enable passengers to connect to and from selected Malaysian destinations (currently Langkawi, Penang, Kota Kinabalu and Kuching) with their baggage checked through to their final destination.

(v) Baggage Fees

Passengers are able to purchase up to 40kg baggage allowance with a charge levied on blocks of 5kg, starting from 15kg. We also levy a charge on certain sports equipment.

(vi) In-flight Sales

Passengers may purchase in-flight meals and in-flight entertainment up to 24 hours before their flight. Our in-flight meals are catered by different vendors; passengers have an extensive menu to choose from. In-flight entertainment on all our flights is provided by way of portable media players. Passengers may also purchase in-flight meals and entertainment on board without pre-booking, subject to availability. Aside from in-flight entertainment and meals, we also sell souvenirs and duty free products on board our aircraft.

(vii) Loyalty Programme

Our passengers have the opportunity to join the AirAsia BIG Loyalty Programme, which was launched by AirAsia Berhad in 2011 to create and retain passenger loyalty. Membership is open to all our passengers as well as the general public. Members of the programme earn points for buying tickets on any flight operated by an AirAsia Group carrier and for purchasing any ancillary service, on hotel stays, travel packages, car rentals and other spending with various partners, including AirAsia Megastore, AirAsia Go, Tune Hotels, Hotel Properties Limited, Healthway Medical Group and Budget car rentals. Members may redeem points in full or through a cash top-up for air travel on flights operated by any AirAsia Group member, AirAsia gift vouchers, AirAsia merchandise, travel packages by AirAsia Go and hotel stays at Tune Hotels. When a member redeems the points for AirAsia X tickets, the operating company owning the AirAsia BIG Loyalty Programme pays AirAsia X for the seat. The number of points required to redeem a seat depends on the number of seats available on, and the destination of, the particular flight for which redemption is to be made.

(viii) Travel Insurance

Through the AirAsia Insure product, we offer travel insurance to our passengers. Benefits and coverage may differ from country to country, but generally all policies provide coverage for trip cancellation, flight delay and damage to or loss of baggage and personal effects.

(ix) Red Carpet Service

In February 2013, we introduced the Red Carpet Service, which includes a dedicated check-in counter, priority baggage tagging and loading, access to the Plaza Premium lounge at LCCT, fast track immigration and security clearance and priority boarding with buggy service to the bay (subject to aircraft parking bay distance) which includes priority baggage delivery upon arrival.

7.7.5 Cargo

Most of the airports in our network are primary air cargo hubs serving major industrial and commercial regions. We have dedicated cargo space on all our aircraft, and we carry various types of consumer and industrial goods.

Our cargo revenue and its percentage contribution to our total revenue since we started commercialising our cargo space in 2008 up to 2012 and the 3 months ended 31 March 2013 are shown in the table below:

	Year ended 31 December					3 months ended 31 March
Description	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Cargo revenue (RM 000)	5,385	27,262	54,966	96,471	79,267	19,914
Cargo as a % of total revenue	2.3%	3.8%	4.3%	5.2%	4.0%	3.7%

Our cargo revenue grew in both absolute terms and as a percentage of our total revenue from 2008 to 2011, but subsequently decreased from 2011 to 2012. The growth in cargo can be attributable to an aggressive pricing strategy and high operational reliability, both in terms of on-time performance of our flights and delivery efficiency. The decrease from 2011 to 2012 is primarily due to the cargo revenue attributable to our withdrawn routes in 2012.

We have a Departed-as-Planned ratio (the percentage of time cargo is flown at time booked) of 96.1% in 2012, which we believe is higher than the industry average. Our customer service for our cargo clients has been recognised by Air Cargo Week, which awarded the Air Cargo Industry Customer Care Award in 2011 and in 2012 to us and AirAsia Berhad jointly. The award is conferred based on industry votes and other criteria such as customer services, customer care policy and strategy for problem solving.

7.7.6 Major Customers

Our customers are primarily individuals travelling by air. No customer accounted for 10% or more of our Group's total revenue in any of the years ended 31 December 2010, 2011 and 2012 and the 3 months ended 31 March 2013.

For details on revenue generated by passenger seat sales, please refer to Sections 12.6.1 and 12.8 of this Prospectus.

7.8 How We Serve Our Passengers

7.8.1 Fuel

The largest component of our total operating expenses is fuel, which includes payments for jet fuel and other into-plane costs, such as airfield fees, throughput fees and other administrative and processing surcharges. Fuel expenses represented 45.3%, 52.6% and 48.1% of our total operating expenses in the years ended 31 December 2010, 2011 and 2012, respectively. For the 3 months ended 31 March 2013, fuel expenses represented 47.4% of our total operating expenses.

We currently engage in the following activities to minimise inherent risks of rising fuel costs:

(i) Fuel Procurement

To maintain competitive ticket prices, we seek to procure fuel at the best possible rates. Our largest fuel supplier currently is Petronas Dagangan Berhad in Malaysia where we uplift most of the fuel requirements in LCCT. Other fuel suppliers are mainly at the airports of our destinations.

We negotiate our fuel contracts together with AirAsia Berhad and other members of the AirAsia Group as the combined volume of fuel required by the AirAsia Group allows us to negotiate better prices than if we were to procure our fuel on a standalone basis.

The fuel procurement team of the AirAsia Group has a practice whereby the team makes recommendations to the Chief Financial Officers of the respective carriers in the AirAsia Group, who then decide if they would like to procure fuel on the basis quoted. The AirAsia Group sources its fuel in various ways, including extension or renewal of fuel supply contracts, open or closed tender and evergreen contracts. The factors taken into consideration when procuring fuel include the relationship with the supplier, the contract period and whether any charges, taxes or fees will be imposed. We procure fuel by, among other things, developing good commercial relationships, negotiating for favourable prices and terms and securing the commitments from fuel suppliers. In terms of fuel availability, we have not experienced any fuel shortage in the past.

(ii) Fuel Management Policy

To help minimise our fuel burn rate, we implement various fuel management techniques. These techniques include the implementation of clear guidelines covering all areas of flight operations such as controls over the total weight carried on our aircraft in order to minimise our fuel burn rate. This includes allowing the aircraft to reach optimum height within the shortest amount of time, determining the optimum flight level to match the engine performance versus weight as less fuel is consumed at optimum height, applying best practice flying techniques for all flight profiles by taking straight-line flight paths and at fuel-efficient speeds as much as possible, and decreasing the overall weight of the aircraft by, among other things, matching supply with demand for food and beverages, on-board documents and water.

(iii) Fuel Hedging

Additionally we also conduct fuel hedging activities as detailed below:

Hedging position - We currently target to hedge between 30% and 50% of our fuel requirement for 3 to 6 months' forward sales. However, the actual amount hedged could differ depending on various factors such as macroeconomic factors and forward and forecast jet fuel prices. For example, in the event that forecast fuel price is expected to drop below our budgeted price, we may not hedge as it would be more advantageous to procure fuel at market prices. On the other hand, in the event that forecast fuel price is expected to increase above the price quoted in our orders, the counterparties may not accept our orders unless at a significantly higher premium. Notwithstanding the above, we do not hedge more than our expected fuel consumption.

For the year ended 31 December 2012, approximately 40% of our total fuel consumed during the period was hedged. As at 23 May 2013, a total of 42%, 31%, 27% and 5% of our projected fuel consumption for the 2nd, 3rd and 4th quarter of 2013 and 1st quarter of 2014, respectively, have been hedged.

Hedging instruments – The underlying contracts are plain vanilla or conventional fixed swaps hedging instruments, hence avoiding any complexities associated with other more complicated derivative contracts. By generally engaging reputable financial institutions for such contracts, counterparty risks are limited. The forward price at which the fuel is hedged is determined collectively by the AirAsia Group's Financial Risk Management Committee ("**FRMC**") of which we are a member, taking into account the budgeted fuel price for the year. Hedging savings are recorded in the event that the actual market price of fuel is above the hedged price. In the event that the actual market price is below the hedged price, the difference represents the additional price we have to pay above market price, which in turn may affect our cost competitiveness should the difference be significant.

Hedging participation – We engage in fuel hedging through the AirAsia Group, in particular the FRMC. The hedging proposals structured by counterparties are analysed by AirAsia Berhad's treasury team, taking into account the collective budgeted fuel demand of the AirAsia Group. The FRMC then deliberates and recommends the appropriate hedging proposals to its member carriers. This collective hedging with the AirAsia Group allows us to negotiate for pricing, cost and risk structures that are more favourable to us, due to increased bargaining position from economies of scale, as opposed to only undertaking fuel hedging activities by ourselves.

In terms of participation by the member carriers, there are no set parameters for each carrier to participate in the recommended transaction, and we can elect whether to participate in each transaction or not, taking into account our own fuel hedging plans, financial portfolio, cost of transaction as well as our risk appetite. We are not bound by any requirement to follow the recommended hedging structure should we believe such structure is not optimal for our hedging requirements, and we are entitled to request AirAsia Berhad's treasury team to enter into such other types of hedging structures on our behalf, if required.

These fuel hedging contracts are entered into by AirAsia Berhad where gains and losses are apportioned when the hedging contracts mature based on the amount of fuel hedged by the respective participating members of the AirAsia Group, divided by the total budgeted amount of fuel hedged by the AirAsia Group. We do not enter into any fuel hedging contracts directly as such contracts are negotiated and entered into by AirAsia Berhad directly with the counterparties. Consequently, any gain or loss arising from fuel hedging is recognised when risk transfers to our Group, namely upon allocation by AirAsia Berhad to us when the hedge matures.

In the event we do not meet or deviate from our hedging targets, we will consider other options, namely fuel surcharge as mentioned in (iv) below to pass on a portion of our fuel expenses to passengers. Although our Board is not directly involved in managing such deviations, our hedging activities are presented to our Audit Committee for review during our quarterly meetings, where the Audit Committee is briefed on the nature and pricing of the hedges we have participated in, together with a sensitivity analysis on pricing.

As a result of our hedging activities, we managed to achieve the following fuel cost savings / (loss) through hedging during the following periods under review:

	Year ended 31 December		
	2010	**2011**	**2012**
Net hedging savings / (loss) per barrel (USD)	2.32	0.30	(0.14)
Average fuel price per barrel (USD)[(1)]	92.50	127.80	129.59
% savings / (loss) compared to average fuel price	2.5	0.2	(0.1)

Note:

(1) Calculated as average price for fuel oil for the period based on the reported mean price of fuel oil reported by Platts, a global provider of energy, petrochemicals and metals information, and a source of benchmark price assessments for those commodity markets.

(iv) Fuel Surcharge

We also pass a portion of fuel price increases to our passengers in the form of fuel surcharges, which is determined periodically depending on the market price of fuel in addition to our level of flight operations.

See Section 5.2.5 of this Prospectus for a discussion of the risks related to increases in the cost of fuel or limitations on fuel supply.

We are represented by our Chief Executive Officer and Chief Financial Officer in the FRMC, and likewise for the other airlines within the AirAsia Group. The FRMC is tasked with the broad objective of managing the market risk exposures inherent in the AirAsia Group's commercial operations, so as to reduce the potentially adverse impact of these risks on the group's earnings and cash flows, while at all times operating within constraints such as corporate risk appetites, various pricing / cost benchmarks as well as the management of credit and operational risk arising from treasury transactions and operations. The AirAsia Berhad treasury team provides market updates and hedging recommendations on a continual basis to the members of the AirAsia Group through the FRMC. Currently, we largely conduct only fuel hedging activities through the FRMC.

7.8.2 Engineering and Maintenance

We have a comprehensive engineering programme comprised of technical services, maintenance, planning, quality assurance, procurement and inventory. All our maintenance programmes are based on the aircraft manufacturer's guidelines and the requirements of the DCA.

We have been approved by the DCA as an Approved Line Maintenance Organisation for A330-300 and A340-300 since October 2007 and an Approved Design Organisation since December 2011. The line maintenance approval allows us to conduct routine or scheduled maintenance on our aircraft, which is carried out according to the types of checks required. The design approval allows us to perform more complex maintenance procedures than an ordinary line check; we can carry out minor changes and repairs including changes and repairs to aircraft structure, cabin interior and the interior equipment.

Our own technical staff perform our 'A' checks. We have outsourced 'C' checks in 2011 and 2012 to Lufthansa Technik Philippines, Inc., which also performs some aircraft upgrade and modification work.

To enable us to be kept updated with the latest developments and to obtain the best in aircraft engineering and maintenance service, we have long term service agreements, generally with terms ranging from 3 years to 20 years, with a number of major servicers in the industry, including our fleet supplier Airbus, which provides aircraft retrofit, modification and upgrade, aircraft spare part supply, aircraft technical support and aircraft health monitoring services to us.

Our aircraft currently utilise engines from Rolls-Royce plc, GE Engine Services Distribution LLC and CFM International Inc. We have long term service agreements with Rolls-Royce plc and its affiliates pursuant to which these parties provide engine maintenance, repair and overhaul services, component support, engine technical support, spare engine support and an engine health monitoring programme. GE Engine Services Distribution LLC and CFM International Inc. also provide engine maintenance, repair, overhaul and technical support services. Honeywell International Sàrl provides us maintenance and exchange services for our auxiliary power units.

We have recorded no major incidents relating to our aircraft which can be attributed to maintenance or engineering faults of our own. Major incidents are major hazardous occurrences other than accidents, associated with the operation of an aircraft which affects or could affect the safety of operation, such as multiple malfunctions of one or more aircraft systems seriously affecting the operations of the aircraft.

7.8.3 Airport Operations

(i) Airport Handling Service

Our Company has all the required licences and agreements to operate at all of our international destinations. These licences and agreements allow us to utilise a wide range of support and ground services available at various airports, including the use of airport equipment and facilities, terminals and related services.

The ground handling services that our airline requires for all our flights include ramp, cargo and baggage handling. To keep costs low, we outsource our handling services to third parties that adhere to international standards and best practices.

(ii) Airport Charges

Airport charges are imposed on our Company at every destination to which we fly. These charges are made up of various fees, which include landing and parking fees at airports and security fees. To manage such costs, we make every effort to ensure that we obtain favourable rates at all airports that we fly to by demonstrating our ability to increase passenger traffic to and from the airports we serve.

7.8.4 People and Training

(i) Our People

Our Company had 1,094, 1,245 and 1,300 employees (including contract staff) as at 31 December 2010, 2011 and 2012, respectively. As at the LPD, we had a total of 1,459 employees. Our employee composition, by function and geographic location are set out as follows:

7. BUSINESS OVERVIEW (cont'd)

Function	Number of Employees as at											
	31 December 2010			31 December 2011			31 December 2012			LPD		
	P[1]	C[2]	Total	P[1]	C[2]	Total	P[1]	C[2]	Total	P[1]	C[2]	Total
Operations	137	10	147	209	17	226	214	41	255	322	37	359
Engineering	183	-	183	209	-	209	219	-	219	234	1	235
Flight Operations – Crew	-	152	152	160	22	182	158	15	173	161	19	180
Flight Operations – Flight Attendant Department	290	265	555	289	246	535	315	217	532	342	206	548
Head Office and Corporate	28	-	28	55	-	55	85	-	85	89	-	89
Commercial and Marketing	27	2	29	34	4	38	33	3	36	45	3	48
Total	**665**	**429**	**1,094**	**956**	**289**	**1,245**	**1,024**	**276**	**1,300**	**1,193**	**266**	**1,459**

Location	Number of Employees as at			
	31 December 2010	31 December 2011	31 December 2012	LPD
Malaysia	1,052	1,195	1,252	1,409
Australia	7	5	8	8
China	11	11	13	14
Taiwan	7	8	9	9
UK	2	2	1	1
India	9	11	1	1
Korea	3	5	8	9
Japan	2	4	5	5
France	1	2	2	2
New Zealand	-	2	-	-
USA	-	-	1	1
Total	**1,094**	**1,245**	**1,300**	**1,459**

Notes:

(1) Permanent staff.

(2) Contract staff.

Our employees are not unionised and we have not experienced any material industrial disruption duè to labour strikes, work stoppages or labour disputes in the past. Our management team enjoys a good working relationship with our employees. We are not involved in any material labour dispute that has a material effect on our financial position and business, and we are not aware of any circumstances that would give rise to any labour dispute that may materially and adversely affect our financial position and business.

As at the LPD, our Company employed a total of 160 foreign employees based in Malaysia, who mainly serve as captains and flight attendants. These foreign employees are typically employed for a period of 2 years. Any extension of their work permits is subject to applicable Malaysian immigration laws and their satisfactory work performance. In addition, we have 50 employees based in various overseas locations, primarily in airport operations and marketing.

(ii) Training

We require our people to comply with training requirements relevant to their responsibilities. Due to the highly regulated nature of the aviation industry, there are extensive mandatory or regulatory training requirements, both recurrent and non-recurrent. In addition, as part of our Company's efforts to remain aware of latest developments, we offer training programmes which may not necessarily be mandated by law but which we believe contribute towards the improvement of our operations.

The majority of our training programmes are centered on technical competence, specifically the skills of our pilots, flight attendants and engineers. There are also various training requirements imposed on our security and guest services teams.

(a) Pilots

Newly recruited pilots (who each must already be qualified with an Airline Transport Pilot's Licence) are required to attend the Standard Training Conversion (STC) programme. The STC programme includes line checks, runs for approximately a month and is conducted by our own in-house instructors. All pilots are also required to attend the Crew Resource Management (CRM) programme to equip themselves with the necessary leadership and people management skills.

Pilots who do not have the particular type-rating for aircraft in our fleet must undergo additional type-rating training in order to qualify to operate our aircraft. In addition, our pilots are also required to undergo a bi-annual training programme to refresh their skills. The programme is divided into 4 modules, to be completed at 6-month intervals.

(b) Flight Attendants

Our flight attendants once recruited, are required to attend a mandatory safety management system (SMS) programme, an initial entry programme that covers all the basic requirements of our fleet. Our flight attendants are also required to participate in mandatory yearly training to remain current on the particular type-rating for aircraft in our fleet.

As with the pilots, our cabin crew are also required to undertake a conversion programme if they wish to work on an aircraft that is different from the aircraft type on which they were originally trained.

(c) Engineers

Apart from the basic maintenance and technical services training, our engineers are also required to attend specific type-rating and manufacturer-related courses, depending on the type(s) of aircraft and engines on which they work. The training programmes are conducted by the respective manufacturers or an approved training organisation (for example, Asian Aviation Centre of Excellence Sdn Bhd and Sepang Aircraft Engineering Sdn Bhd). The training includes courses on type rating for A330-300/A340-300 and various engine-related courses, which are intended to equip our engineers with basic technical knowledge and trouble-shooting skills, as well as to enable our engineers to be kept up-to-date with not only the basic skill sets to maintain our aircraft but also the latest developments in aviation engineering.

(d) Security

Various courses on aviation security, including ICAO courses, are mandatory for all security officers.

Our security team also regularly participates in various forums, training workshops and training simulations with local regulatory authorities in the markets in which we operate, to keep current with latest developments.

(e) Guest Services

Our guest services team members attend a mandatory guest services initial programme intended to train them in the basic skills and knowledge required for their role. Our guest services officers are also required to attend various recurrent programmes.

(f) Safety Management System

We provide extensive training to all employees in line with our commitment to maintaining the safety and security of our passengers and our employees by encouraging our employees to understand our safety management system and to be familiar with the particular aspects of the systems that are relevant to their roles.

7.8.5 Information Technology

We share various information technology systems with the broader AirAsia Group, pursuant to the AirAsia Services Agreement between our Company and AirAsia Berhad. AirAsia Berhad invests in information technology in a manner intended to lower the AirAsia Group's costs, leading to economies of scale and improved efficiency and business continuity.

Our principal operating software system is NewSkies 3.2 Reservations System by Navitaire, Inc. ("**NewSkies**"), which we use for inventory and sales management, reservations and check-in. NewSkies operates through a single database and provides real time access to revenue information. The software fully integrates bookings received through the Internet, the nationwide call centre, sales offices, mobile phones and tablets. We have a full disaster recovery site in Sydney for NewSkies.

We also use InFare and airRM, revenue management software programmes, which are used by many airlines. InFare is a programme that monitors airline web prices and stores historical fare data, which we use to make customised searches in order to track our competitors' fares. airRM is a programme that filters flights with similar attributes and allows the user to adjust pricing automatically in accordance with rules established by the user. We set up and revise fare rules in airRM using competitors' fare data collected by InFare. We use these two programmes, together with NewSkies, to manage our revenue dynamically.

Our other principal operating software systems include Microsoft's Axapta Financial Management ("**Axapta**"), which we use for enterprise resource planning and financial reporting; Merlot Flight Operations System ("**Merlot**") by Merlot Aero Ltd which we use for flight scheduling and crew rostering; AMOS, which we use for aircraft maintenance engineering and logistics management; and Microsoft SharePoint for Intranet ("**SharePoint**"), which we use for enterprise portal, for employee self-service and collaboration.

All critical systems and data networks have redundancies for business continuity. If one server or network link fails, we switch to the back up immediately and downtime is minimal, if any.

For a more detailed discussion of the AirAsia Services Agreement with AirAsia Berhad, please refer to Section 7.9.6(ii) of this Prospectus.

7.8.6 Intellectual Property

We are a member of the AirAsia Group and use the "AirAsia" and "AirAsia X" brand and trade names, including trade and/or service marks under licence from AirAsia Berhad pursuant to the Brand Licence Amendment and Renewal Agreement. Please refer to Section 7.9.6(i) of this Prospectus for a description of the terms of the Brand Licence Amendment and Renewal Agreement.

Other than the "AirAsia" and "AirAsia X" names and the related marks and logos, we are not dependent on any other intellectual property rights for our business operations.

7.8.7 Property

As at the LPD, we did not own any real property. We, namely AirAsia X, lease the office space that we use for our corporate headquarters for a monthly rental of RM26,780.00, which is described below.

Description of property	Location/ Address	Approximate land/ Built-up area	Existing use	Lessor	Date of expiry of lease
Single storey office building, partially occupied by AirAsia X	Lot PT16, Jalan KLIA S7, Southern Support Zone, KLIA, 64000 Sepang, Selangor	4,489.33 square feet	General office and library	Sepang Aircraft Engineering Sdn Bhd	31 July 2013 (with an option to renew for one year)

We are not in breach of any lease covenants or conditions, and we are not aware of any non-compliance with current statutory requirements, land rules or building regulations by the lessor in respect of the above-mentioned property, that will have a material adverse impact on our operations as at the LPD.

7.8.8 Major Suppliers

The table below identifies suppliers that accounted for 10% or more of our cost of sales in any of the years ended 31 December 2010, 2011 and 2012, and the 3 months ended 31 March 2013, the amount we paid to each of these suppliers in each year / period and the percentage of our total cost of sales in each year / period attributable to each of those suppliers.

			Year ended 31 December						3 months ended 31 March	
	Nature of	No. of years of	2010		2011		2012		2013	
Vendor	Service	Relationship	RM 000	%	RM 000	%	RM 000	%	RM 000	%
Petronas Dagangan Berhad	Fuel	4	348,012	30.9	514,914	30.4	550,904	32.9	130,114	31.4
Shell Malaysia Trading Sdn Bhd	Fuel	6	136,061	12.1	139,327	8.2	111,897	6.7	11,362	2.7
Total			**484,073**	**43.0**	**654,241**	**38.6**	**662,801**	**39.6**	**141,476**	**34.1**

Fuel cost is the single largest component of our cost of sales, accounting for approximately 53.1%, 60.1%, 55.2% and 54.7% of our total cost of sales in the years ended 31 December 2010, 2011 and 2012, and the 3 months ended 31 March 2013, respectively. We enter into annual and biennial agreements with Shell Malaysia Trading Sdn Bhd and Petronas Dagangan Berhad, respectively, for our fuel requirements. We are entitled to review the pricing and quantity of the fuel supplied or to be supplied by these suppliers upon expiry of the agreements. As a result, we are not bound to engage such suppliers if we are not satisfied with the terms of the renewal agreements.

Other than the suppliers identified above, no one supplier accounted for 10% or more of our Group's total cost of sales in any of the years ended 31 December 2010, 2011 and 2012, and the 3 months ended 31 March 2013.

7.8.9 Research and Development

Our business is not dependent on research and development. Accordingly, we have not had any material spending on research and development in any of the years ended 31 December 2010, 2011 and 2012.

7.9 How We Maintain Operational Integrity

We are committed to ensuring the safety and security of our passengers and our employees. This commitment is reflected in our systematic and comprehensive safety and security management system, which is implemented in a rigorous manner. We provide extensive training to all employees involved, and we employ stringent and explicit policies and procedures, which reflect the applicable regulations, international standards and industry best practices. We staff our safety and security departments with experienced personnel who have extensive experience and knowledge in their areas of responsibility.

7.9.1 Safety

Our safety management system is part of our overall risk management programme. Risk management is targeted at the identification, analysis and mitigation of risks associated with our operations. It aims at balancing resource allocations to address all risks and ensure that viable risk control and mitigation actions are in place.

We integrate the key elements of the safety management system into our daily operations. The system is an integrated set of work beliefs, practices and procedures for monitoring and improving the safety of all aspects of our operations, identifying the potential for errors and formulating defences to ensure that the errors do not result in unwanted incidents or accidents. We utilise: (a) a reactive programme (including safety and mandatory occurrence reports); (b) a proactive programme (internal surveys, audits and safety reports); and (c) a predictive programme (flight data analysis and direct observation), for hazard identification. After a hazard is identified, we take risk control measures (i.e., assessing the risks associated with the hazard and implementing actions aimed at reducing the risks).

We have established various safety performance indicators and targets to provide us with an "early warning" of any potential safety hazard. In addition, we continuously track the indicators and measure them against our safety goals. We also track the reliability of aircraft systems and components; maintain a log of safety reports; track engineering reliability, track flight safety and cabin safety as well as ground safety observations.

With regard to flight safety, we have programmes that analyse flight data, which enable us to track any deviation by our pilots from our standard operating procedures. In addition to identifying potential areas of concern early, we use data collected from the regular tracking and reporting in evidence-based training, both at monthly pilots' dialogues and bi-annual mandatory pilot training. We also use these data to further improve our procedures.

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As part of our effort to ensure our safety management system's efficacy, we have established a Safety Review Board, whose members include the Chairman of our Board and our Chief Executive Officer, to oversee our safety function. Our Safety Review Board meets quarterly to review our safety performance against objectives, continuous improvement initiatives, and audit and investigation findings. Our Board also reviews our Company's safety performance at every quarterly Board meeting. In addition, regular internal and external audits are conducted, including audits by the DCA and similar regulatory bodies in other jurisdictions. Since we began our operations in 2007, we have passed all audits and none of our aircraft has been involved in any major incidents, which are major hazardous occurrences other than accidents, associated with the operation of an aircraft which affects or could affect the safety of operation, such as multiple malfunctions of one or more aircraft systems seriously affecting the operations of the aircraft.

7.9.2 Security

While the relevant airport operators are responsible for security screening of passengers and baggage at our domestic and international destinations, we train our staff to be vigilant in identifying potential security breaches and to handle unruly passengers. Operations employees are only hired after they have undergone a background security screening.

We provide extensive training to ensure that our employees have the appropriate skills to carry out their duties. All crew and ground handling staff are required to undergo dangerous goods awareness training to be able to identify potentially dangerous goods and items that threaten the safety of the flight (these include flammable liquids and containers that are likely to explode under pressure).

Following the terrorist attacks in the United States on 11 September 2001, ICAO adopted regulations and guidelines requiring airlines to adhere to certain security measures. These include:

(i) installation of reinforced doors and review of policies and procedures on cockpit visits;

(ii) occupying of jump seats;

(iii) removal of checked-in luggage from the aircraft when the passenger fails to board the aircraft;

(iv) review of items allowed as cabin luggage;

(v) enhanced surveillance of holding baggage; and

(vi) crew training on handling of disruptive passengers and passenger profiling.

We are in compliance with all of the DCA's and the ICAO's regulations. In addition, cockpits in all of our aircraft have reinforced, bulletproof doors. DCA carries out annual audits on our home base in Kuala Lumpur; DCA has also in the past audited our other stations, such as Melbourne and Perth. The Australia Department of Infrastructure and Transport conducts Australian Last Port Of Call (LPOC) Audits once every 2 years. Other regulatory bodies, such as the Office of Transport Security in Australia, also carry out annual audits in all our stations under their jurisdiction. We have not, to date, had any major audit findings.

7.9.3 Insurance

We maintain aviation and non-aviation insurance in connection with our operations and in some instances to comply with the terms of our aircraft financing and leasing arrangements. We believe our overall insurance coverage is consistent with industry practice and is maintained at adequate levels.

(i) Aviation Insurance

We maintain aircraft insurance, valid for operating anywhere in the world, against the following risks and with varying coverage limits:

(a) Hull All Risks (which includes aircraft engines, spare parts, components and equipment, ground support equipment, aircraft spare kits (including whilst installed or on board on aircraft) and engineers and mechanics tools) against loss and damage whilst flying and on the ground, for an agreed value for each aircraft;

(b) Hull (including spares) War and Allied Risks, as excluded by the War, Hijacking and other Perils Exclusion Clause, for an agreed value for each aircraft;

(c) Hull Deductibles (which covers the difference between the deductibles payable by us in the Hull All Risks policy (up to USD1,000,000,000) as mentioned under (a) above and USD50,000 for each and every claim); and

(d) Aircraft third party, passenger, baggage, cargo, mail and airline general third party legal liability for a combined single limit (bodily injury/property damage) (including war and allied risks); and

We maintain passenger personal injury liability insurance as required by the various airports and regulatory agencies.

All insurance policies are renewed annually. As at the date of this Prospectus, they are effective up to 14 May 2014. The rates for the above insurances are obtained together with the AirAsia Group, but the respective insurance policies are obtained specifically in the name of AirAsia X and the costs for maintaining these policies are borne solely by us.

(ii) Non-aviation Insurance

We also carry non-aviation insurance which covers our assets, properties, machinery and equipment, motor vehicle, third party public liability, employer liability and personal accident and hospitalisation insurance for our employees.

All of our non-aviation insurance policies are renewed annually. As at the LPD, they are effective up to 31 December 2013.

We do not carry insurance covering business interruptions. We have not experienced any material interruption to our business and operations since we started operating as a low-cost, Long-haul carrier.

For the past 5 years and up to the LPD, we had not made any claims or suffered any losses or damages or incurred any liabilities relating to our passengers, third parties, aircraft, assets, properties, employers and employees that has had an adverse effect on our business and financial position. None of our insurance policies have been revoked, nor have we been denied coverage by any insurer.

We believe our levels of aviation-related insurance coverage are generally in line with industry practice, and meet the requirements set by the respective lessors and pursuant to the conditions under the licences issued by the relevant government authorities. There has been no instance of non-compliance in the past. Please refer to Section 5.2.22 of this Prospectus for a discussion of risks related to our insurance coverage.

7.9.4 Interruptions To Business And Operations

Our Company had not experienced any interruption in business that had a significant effect on operations during the 12 month period prior to the LPD.

7.9.5 Regulations

The main legislation, regulations and orders in force in Malaysia relevant to civil aviation are: Civil Aviation Act 1969, Carriage By Air Act 1974, Aviation Offences Act 1984, International Interests in Mobile Equipment (Aircraft) Act 2006, Civil Aviation Regulations 1996, the Air Navigation (General) Regulations 1955, the Air Navigation (Radio) Regulations 1955, the Carriage by Air (Colonies, Protectorates and Trust Territories) Order 1953 and the Carriage by Air (Non-International Carriage) (Colonies, Protectorates and Trust Territories) Order 1953. Such legislation incorporates the principles of certain international conventions such as the Convention on International Civil Aviation, 7 December 1944 (known as the Chicago Convention), the Warsaw Convention as amended at the Hague on 28 September 1955 and supplemented by the Guadalajara Supplementary Convention signed at Guadalajara 1961, the Convention for the Unification of Certain Rules for International Carriage by Air, 28 May 1999 (known as the Montreal Convention), and the Cape Town Convention on International Interests in Mobile Equipment and the associated Protocol on Matters Specific to Aircraft Equipment.

The regulator of the airline industry in Malaysia is the DCA, an agency under the Ministry of Transport of Malaysia. The DCA regulates civil aviation affairs, especially those pertaining to aviation security and standards in Malaysia. The DCA is responsible for the regulation of all matters concerning the entry, transit and departure of aircraft, passengers, crew and cargo and further for the certification and licensing of aircraft, personnel, airports, air operators and aircraft instruments, equipment and flight documents.

(i) Aircraft requirements and licences

The Civil Aviation Regulations 1996 ("**CAR**") prescribe certain licences, permits and approvals required to be held by a carrier of passengers, mail or cargo before the carrier can legitimately operate. The regulatory body that regulates and issues such licences, permits and approvals is the DCA.

Major licences, permits and approvals required to be held by air carriers include the ASL, which permits a carrier to operate in Malaysia, and the Operator's Certificate, which certifies that the carrier has met the requirements of CAR.

In addition, each aircraft owned and/or operated by the air carrier must be registered in Malaysia on the aircraft register at the DCA. Each aircraft must also have its own certificate of airworthiness, issued by the DCA after inspection confirming that such aircraft is maintained and operated in accordance with CAR and a noise certificate certifying that such aircraft complies with the levels specified in CAR. In addition to the certificate of airworthiness, a Malaysian aircraft is required to have 2 copies of a certificate of maintenance review, certifying that the aircraft, its engine, equipment and, in particular, its radio station is maintained in accordance with approved procedures, issued by the holder of an aircraft maintenance engineer's licence. One copy is to be carried in the aircraft and the other is to be kept by the operator of the aircraft.

All aircraft that fly in or over Malaysia are required to be registered with the DCA in Malaysia (as a Malaysian aircraft) or a state that is party to the Chicago Convention or any other foreign state with a bilateral or multilateral air agreement with Malaysia.

There are additional requirements under CAR. A Malaysian aircraft must have enough flight crew (i.e., pilots and flight engineers) on board to meet the requirements of the aircraft's certificate of airworthiness and to ensure the safety of the aircraft. An aircraft registered in another country also must have the number of flight crew on board that is required by the law of its country of registration. Each member of the flight crew is required to be licensed in the appropriate class. The classes of licences granted by the DCA include commercial pilot's licence, airline transport pilot's licence, flight engineer's licence and flight radio-telephony operator's licence. In addition to flight crew, an aircraft with a seating capacity of less than 200 passengers must have at least one cabin attendant (who cannot act as a member of the flight crew) for every 50 passengers and where the aircraft carries more than 200 passengers, one cabin attendant for every main exit in the aircraft.

Upon being satisfied that the applicant has sufficient knowledge, experience, competence and skill in aeronautical engineering, the DCA will grant a licence allowing the applicant to perform line maintenance and issue certificates of release to service or reports, where required, in relation to the inspection, overhaul, repair, replacement, modification and testing in accordance with approved manufacturer's manuals and documents for certain aircraft as the DCA may specify. The DCA may also issue a design organisation approval allowing the holder to perform minor repairs and minor changes to type certification upon provision of satisfactory evidence of the qualifications and competence of the applicant, the facilities at the disposal of the applicant and the work procedures proposed by the applicant.

With regard to operations in foreign countries, operation permits are issued by the aviation authorities of the respective countries in which operations are conducted. For certain countries, such as Australia, an AOC is also required, which is issued once the Civil Aviation Safety Authority of Australia is satisfied that the Australian Civil Aviation Act is complied with.

(ii) Air Services Agreements

Relationships between countries regarding international air services are governed by bilateral air services agreements. These agreements are aimed at concluding, interpreting, expanding, amending or resolving disputes in relation to intergovernmental agreements, arrangements or understandings concerning international air services. The wide use of bilateral air service agreements globally to regulate international air transport is a result of principles agreed in the Chicago Convention, recognising the need for special permission or other authorisation for the operation of international air services in the territory of another state. These bilateral air service agreements are a result of the difficulty in establishing a multilateral commercial aviation regulatory scheme.

Malaysia has signed or is in the process of negotiating bilateral air service agreements with close to 100 states. These agreements are not publicly available. However, we believe that such bilateral services agreements contain the standard provision in the ICAO International Air Transport Agreement signed at Chicago that provides that each contracting state reserves the right to withhold or revoke a certificate or permit to an air transport enterprise of another state in any case where the withholding or revoking state is not satisfied that substantial ownership and effective control are vested in the nationals of a contracting state. The ICAO International Air Transport Agreement provides no explanation or definition of the method or criteria for determining substantial ownership and effective control of an airline. However, there is a practice internationally that the requirement of substantial ownership and effective control is met by at least 51% ownership of the airline being vested in the nationals of a contracting state. To meet this requirement of substantial ownership and effective control, at least 51% ownership of our Company must be vested in Malaysian nationals. To ensure compliance with restrictions on foreign ownership, our Articles of Association provide a 45% limit on non-Malaysian ownership of our Shares. For a discussion of the risk related to restrictions on foreign ownership of our Shares, please refer to Section 5.3.8 of this Prospectus.

Our operation of international passenger services depends on traffic rights (also known as "**freedoms**") negotiated in air services agreements by the government of Malaysia with other countries. As traffic rights are negotiated on a government-to-government basis, the traffic rights secured in air services agreements belong to each relevant government, which allocates the rights to airlines under its jurisdiction.

We secure traffic rights by applying to the Ministry of Transport of Malaysia ("**Ministry**"). The Ministry determines whether available bilateral rights exist with the country that we are seeking to fly to, either because there is an open skies arrangement (unlimited flights permissible), such as between Malaysia and Korea, Taiwan and China, or if there is availability from existing quotas, such as with Australia (quotas based on seat capacity per week to 4 main cities), Japan (open skies from summer of 2013, except for Haneda) and Nepal (quotas based on flights per week). If available, the Ministry has the discretion to grant them to us, if it is deemed in the national interest. If not and if it supports our application, the Ministry will attempt to seek additional rights from their counterparts in other countries.

The air traffic rights granted specify the volume and frequency of flights to specific airports in the country. There may also be caps placed on the number of total seats on the aircraft that an airline is allowed to fly to a particular airport.

We have obtained and are in possession of all traffic rights required to operate on our routes. Traffic rights may be revoked or withdrawn by the country giving the rights. As at the LPD, none of our traffic rights had been withdrawn.

(iii) Major Licences, Permits and Approvals

We have obtained the required licences, permits and approvals for our operations. The details of these licences, permits and approvals are set out in Annexure A of this Prospectus.

7.9.6 Dependency on Contracts, Agreements or Other Arrangements

Apart from those major licences, permits and approvals set out in Section 7.9.5(iii) of this Prospectus and those set out below, as at the LPD, there were no material contracts, agreements or arrangements which have been entered into by us on which we are dependent for our business operations.

(i) Brand Licence Amendment and Renewal Agreement

We entered into the Brand Licence Amendment and Renewal Agreement with AirAsia Berhad on 21 July 2012, whereby AirAsia Berhad granted us a non-exclusive and non-assignable licence to use and reproduce the "AirAsia" brand and trade name, including trade and/or service marks, for Long-haul operations. The Brand Licence Amendment and Renewal Agreement will have an initial term of 5 years. Thereafter, parties may enter into negotiations for up to 4 further extensions of 5 years each of the agreement. Upon expiry thereafter, the parties may negotiate to further extend the agreement.

In exchange for the licence, we have agreed to pay AirAsia Berhad an annual licence fee of (i) RM680,000; or (ii) if our gross revenue for any financial year exceeds RM136 million, 0.5% of our gross revenue, but no more than the average of 0.5% of our gross revenue for the 3 best performing of the first 5 full financial years ("**Fee Cap**"). The Fee Cap shall apply (i) going forward for the subsequent financial years; and (ii) by way of adjustments in the event that any of the annual fees paid during the first 5 financial years exceed the Fee Cap. Furthermore, pursuant to the Brand Licence Amendment and Renewal Agreement, we were also granted a waiver from the licence fee for the first year of operations (being 2008) and a deferment for the subsequent 2 years (being 2009 and 2010).

AirAsia Berhad has agreed to not directly or indirectly invest in or license another low-cost, Long-haul air carrier based in Malaysia. If opportunities arise to invest in other low-cost Long-haul carriers based in another member country of ASEAN, AirAsia Berhad will give us the first right of refusal to undertake the investment. If opportunities arise to invest in other low-cost Long-haul carriers outside of ASEAN, AirAsia Berhad will give us a reasonable opportunity to co-invest with them.

For example, in the event that AirAsia India and AirAsia Japan (located outside ASEAN) decides to venture into Long-haul routes, under the terms of the Brand Licence Amendment and Renewal Agreement, we shall be provided a reasonable opportunity to co-invest with AirAsia Berhad in respect of its investment in and/or license for AirAsia India's or AirAsia Japan's Long-haul venture.

The Brand Licence Amendment and Renewal Agreement acknowledges that, where our Company and AirAsia Berhad operate from a common point or hub, AirAsia Berhad is a Short-haul air carrier, operating flights under a 4 hour flight range and our Company is a Long-haul air carrier, operating flights above a 4 hour flight range. Notwithstanding that, we are under an obligation to provide notice to AirAsia Berhad if AirAsia Berhad is, at the relevant time, already operating flights above a 4 hour flight range from a point or hub, prior to our Company operating from such point or hub. As at the LPD, AirAsia Berhad does not operate any flights above a 4 hour flight range. We are not permitted to code-share any services with an operator other than AirAsia Berhad on any sector on which AirAsia Berhad operates to ensure that the goodwill associated with the "AirAsia" brand is not diluted.

We are required to adhere to the "AirAsia Service Standards" as may be amended by AirAsia Berhad from time to time, and ensure our staff, representatives and agents conduct our operations in an orderly and business-like manner so as to maintain the standards of quality and reputation of the AirAsia brand and the AirAsia Service Standards. For certain goods and services, we are required to use supplier(s) nominated by AirAsia Berhad to ensure the maintenance of standards. As a Long-haul air carrier, we will not undertake scheduled flights of under a 4-hour flight range. We shall also not code-share any services with an operator other than AirAsia Berhad on any point-to-point route on which AirAsia Berhad operates.

AirAsia Berhad is entitled to terminate the Brand Licence Amendment and Renewal Agreement if we take any legal or procedural steps to challenge AirAsia Berhad's exclusive right to all or any part of the AirAsia brand, if our AOC or ASL is revoked or cancelled, or if there is a change in control in our Company (excluding a change in control resulting from an initial public offering). "Change in control" means the change in power of a person or group of persons acting together to secure:

(a) by means of the holding of shares or the possession of voting power in or in relation to AirAsia X or any other body corporate; or

(b) by virtue of any powers conferred by the articles of association or other document regulating AirAsia X or any other body corporate;

that the affairs of AirAsia X are conducted in accordance with the wishes of that person or group of persons acting together.

Either party can terminate the Brand Licence Amendment and Renewal Agreement in the event of a breach by the other party that is incapable of remedy or, if capable of remedy, not remedied within 28 days after notice. Either party may also terminate the Brand Licence Amendment and Renewal Agreement if the other party ceases or threatens to cease to carry on business or suffers an insolvency event including arrangement or composition with creditors, petition for winding up or the appointment of a liquidator, manager or receiver over the whole or any part of its assets.

The Brand Licence Amendment and Renewal Agreement amended and renewed the Brand Licence Agreement entered into with AirAsia Berhad on 20 July 2007.

(ii) AirAsia Services Agreement

We entered into the AirAsia Services Agreement with AirAsia Berhad on 31 October 2007, which was supplemented by a Renewal of Fee Schedule dated 28 November 2008, amended by an amendment agreement dated 13 May 2011, and supplemented by a renewal agreement dated 22 June 2012. Under this agreement, AirAsia Berhad provides various services to us, which include AirAsia Insure (which has since been undertaken by Tune Insurance Malaysia Berhad (formerly known as Oriental Capital Assurance Berhad) and Tune Ins Holdings Berhad, companies related to AirAsia Berhad, as detailed in Sections 11.1.2(ix) and 11.1.2(viii) respectively), regulatory issues and infrastructure development, commercial services, information, communication and technology (ICT) services, treasury services, and other services to be provided on a per-usage basis such as audit and consulting services, security and shared resources. We may also request AirAsia Berhad to provide ad-hoc services as and when necessary. The fees payable are generally based on the cost of services with a 10% margin.

There is no expiry set out for the AirAsia Services Agreement. However, the schedules on the scope and pricing for the services have in practice been renewed on a yearly basis, whereby the scope has generally decreased over time. For the latest renewal agreement dated 22 June 2012, the term for the scope and pricing is 1 year from 22 June 2012.

A summary of the current scope of services and the cost of each of the services as stated in the renewal agreement are as follows:

Service	Description of Service	Contractual Cost of Service
AirAsia Insure	Provision of AirAsia Insure as a purchase option for our passengers.	Under our outsourcing arrangement for Tune Ins Holdings Berhad to manage AirAsia Insure as set out in Section 11.1.2(viii) of this Prospectus, AirAsia X shall be entitled to the commissions or fees received for the sale of AirAsia Insure in China and Taiwan via AirAsia Berhad.
Regulatory issues and infrastructure development	AirAsia Berhad to contribute towards the manpower cost for the AirAsia Group regional manager in China.	The monthly salary of the AirAsia Group regional manager in China shall be apportioned between our Company and the AirAsia Group companies that operate into China, on an equal basis, without any mark up.

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7. BUSINESS OVERVIEW (cont'd)

Service	Description of Service	Contractual Cost of Service
Commercial services	**i. Sales Distribution, Sales Support and Web Team** AirAsia Berhad to provide services to business development shared with our Company including on-line travel agents and global distribution system, travel agent registration and reconciliation and to manage, plan, build and develop the airasia.com website.	Cost of services will be based on staff salary apportioned by seat capacity.
	ii. Direct Channel AirAsia Berhad to provide direct channel services including sales offices, airport sales counters and the AirAsiaTravel and Service Centres.	The respective sales offices, airport sales counters and AirAsiaTravel and Service Centres will retain the service fees charged to customers to defray the set up cost and on-going operating expenses.
	iii. Branding and Creative AirAsia Berhad to provide branding and creative services which include sponsorship and corporate and commercial branding.	Monthly cost which includes staff cost and benefits with mark up of 10% and other on-going operating expenses and overheads will be apportioned based on time spent.
Information, communication and technology services	AirAsia Berhad to provide information technology ("IT") services to the infrastructure, business system, enterprise systems, business operation and business analytics*. * *Through third party service providers engaged by AirAsia Berhad*	Our Company shall pay 15% of the cost for any new shared IT systems hardware and software installed. Monthly cost which includes staff cost and benefits and other on-going operating expenses and overheads will be charged based on seat capacity allocation with a mark up of 10%. Maintenance costs to be apportioned based on seat capacity. Development of projects if undertaken by AirAsia Berhad, will be at a rate of RM1,500 per man day plus 10% mark up, or at cost if performed by third party. Sales via all channels will be charged at rate of USD0.29 per flown passenger.

Service	Description of Service	Contractual Cost of Service
Treasury	AirAsia Berhad to negotiate the best pricing and terms for fuel procurement and to analyse hedging structures suitable for the AirAsia Group.	**i. Fuel procurement** RM5,000 per contract **ii. Fuel hedging** RM12,000 per month
Audit and consulting services	AirAsia Berhad to monitor and investigate all fraudulent credit card transactions and develop risk based IT audit plan for the AirAsia Group.	**i. Credit Card Fraud Control Unit** Cost of services apportioned based on seat capacity **ii. IT Audits** On project basis – man-hour estimated cost of RM62 per hour plus out-of-pocket expenses
Security	AirAsia Berhad to provide security services at the aircraft, passenger and baggage screening and reconciliation.	RM120 for each departing flight. RM360 for each departing flight requiring security profilers. RM40 for each arriving flight. Fees payable to AirAsia Berhad are 10% above the charges.
Shared resources	Sharing of the services of our Group's employees provided in support of the operations of other companies within the AirAsia Group, including our Manager, Operations and Processes headcount and Regional Head of Security.	Our Company shall share the cost equally with the AirAsia Group companies involved.

Either party may terminate the agreement by written notice if there is substantial failure to comply with the terms of the agreement and such failure continues after 30 days from a notice to remedy such failure from the non-defaulting party. The agreement will automatically terminate if either party ceases or threatens to cease carrying on business or operations, becomes insolvent or is wound-up or dissolved, or a liquidator, trustee, receiver, or encumbrancer takes possession of or is appointed over all or substantially all of its assets.

As the services provided by AirAsia Berhad under the AirAsia Services Agreement are related party transactions, please refer to Sections 11.1.3 and 11.2 of this Prospectus for our internal procedures in place to ensure the terms of the renewal of the agreement are on an arm's length basis and on usual business terms.

(iii) Use of facilities at LCCT

Our Company and Malaysia Airports (Sepang) Sdn Bhd ("**MASB**") have entered into an arrangement since November 2007, whereby MASB provides us, with respect to the facilities in LCCT at KLIA, certain services, including the use of the apron, landing and parking, passenger loading, waste management and baggage handling. As we do not have an agreement with MASB in respect of the use of such facilities, the arrangement for the use of facilities is primarily governed by a written conditions of use provided by MASB, together with standardised published rates applicable to all airlines using the airport facilities at KLIA. We have, since our commencement of operations, transacted with MASB on the abovementioned basis, whereby we are issued monthly invoices based on our usage level at the pre-determined rates as mentioned above. Notwithstanding this, we have executed written agreements for our operations at all other airports where we operate.

Based on the number of passengers we carry, we account for 8.9% of the international passenger movement in KLIA (including LCCT) in 2012, according to S-A-P.

In consideration for the provision of such services and facilities, we are required to pay MASB certain charges in the form of landing charges, parking charges, aerobridge charges, passenger service charges, passenger security service charges, and check in counter charges. In term of the fees applicable to the services, the aeronautical charges to be paid by our Company are regulated by the Malaysian Civil Aviation Regulations 1996. MASB charges our Company on a monthly basis based on the actual usage level of the abovementioned services.

As part of the conditions of use, we are required to comply with the provisions of all applicable legislation, laws and regulations, including the Civil Aviation Act 1969 and the Aviation Offences Act 1984 and the Malaysian Civil Aviation Regulations 1996. We shall also be aware of and comply with all laws or regulations concerning environmental laws, noise management and/or occupational health and safety.

(iv) Master Purchase Agreement

We entered into the A330-300 Master Purchase Agreement with Airbus on 14 June 2007 (as supplemented by various letter agreements and amendment agreements, the "**Master Purchase Agreement**") pursuant to which we agreed to take delivery of 15 A330-300s in accordance with a specified delivery schedule. By letter agreement dated 14 June 2007 Airbus granted us an option to purchase an additional 10 A330-300s. We exercised the option on 5 December 2007.

In addition, under Amendment No. 7 dated 30 December 2010 (as amended and supplemented by various amendment agreements), we agreed to take delivery from Airbus, of 3 A330-200s, with an option to purchase 2 more. Subsequently, we converted one of the firmly ordered 3 A330-200s into an A330-300, which is scheduled to be delivered in the 4th quarter of 2014. The 2 remaining firmly ordered A330-200s have been disposed of to third parties.

If any payment due to Airbus under this agreement is not received by the due date, Airbus shall be entitled to charge us late payment interest from the due date up to the date when payment is received. Either party may terminate all or part of the Master Purchase Agreement by written notice in the event that, amongst others, the defaulting party files a voluntary petition in bankruptcy, or is divested of a substantial part of its assets for a period of at least 60 days. In addition, Airbus has the right to terminate all or part of the Master Purchase Agreement, subject to applicable grace periods, for payment and other material defaults by AirAsia X including under certain other agreements entered into with Airbus and its affiliates.

(v) A350-900 Purchase Agreement

We entered into the purchase agreement with Airbus on 16 June 2009 (as supplemented by various letter agreements and amendment agreements, the "**A350-900 Purchase Agreement**"), pursuant to which we agreed to take delivery of 10 A350-900s in accordance with a specified delivery schedule and we have an option to take delivery of 5 more.

If any payment due to Airbus under this agreement is not received by the due date, Airbus shall be entitled to charge us late payment interest from the date falling 5 days after the due date up to the date when payment is received. Either party may terminate all or part of the A350-900 Purchase Agreement by written notice in the event that, amongst other, the defaulting party files a voluntary petition in bankruptcy, or is divested of a substantial part of its assets for a period of at least 60 days. In addition, Airbus has the right to terminate all or part of the A350-900 Purchase Agreement, subject to applicable grace periods, for payment and other material defaults by AirAsia X including under certain other agreements entered into with Airbus and its affiliates.

7.10 Our Competition

Our competition can be broadly categorised into full-service Long-haul carriers based in Asia Pacific Region and other low-cost, Long-haul carriers in Asia Pacific Region.

Our main local competitor in the Long-haul segment is Malaysia Airlines. Malaysia Airlines is a FSC, offering multi-class scheduled services to a broad network of more than 100 domestic and international destinations, complimentary in-flight meals, a frequent flyer programme and airport lounges. We also compete directly with other foreign competitors such as Emirates, Korean Airlines, Japan Airlines, Garuda Airlines, China Airlines and Eva Air, and indirectly with Singapore Airlines, Thai Airways International and Cathay Pacific Airways, on certain international Long-haul routes. We believe we distinguish ourselves from our FSC competitors by offering customers fares that are often lower than the fares of these carriers.

Our principal competitors in the low-cost, Long-haul segment in which we operate include Australia's Jetstar and Singapore's Scoot. We also compete with Singapore's Tiger Airways for our flights to Perth and Taipei, where Tiger Airways flies out of Singapore. The Philippines' Cebu Pacific is expected to launch a low-cost, Long-haul operation in October 2013. None of our Long-haul LCC competitors currently competes with us directly on our routes. Furthermore, we believe our early mover advantage gives us a competitive edge against these competitors.

Please refer to Section 8 of this Prospectus for further discussions on our competition.

The S|A|P Group
Strategic Airport Planning

Asia-Pacific:
55 Soi Langsuan, Suite 1902
Ploenchit Road
Bangkok, Thailand 10330
+66 (86) 060-4626 (office)
+1 978 246-6031 (fax)

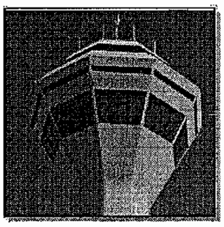
Please use San Francisco address for correspondence.

Americas:
1342 Jones Street
Suite 6
San Francisco, California 94109 USA
+1 415 577-2127 (office)
+1 978 246-6031 (fax)

inquiry@thesapgroup.com

Summary Report of Findings





Independent Report of the Aviation Consultant
AirAsia X Berhad

prepared for

AirAsia X Berhad
Kuala Lumpur

prepared by

The S-A-P Group
Bangkok and San Francisco

The S-A-P Group (Strategic Airport Planning Ltd) was asked by AirAsia X Berhad (AirAsia X) to prepare this Report of the Aviation Consultant on AirAsia X and air travel in Southeast Asia. This independent expert report was prepared to be included in documentation (including, but not limited to any prospectus or offering circular) to support the Initial Public Offering of AirAsia X.

The S-A-P Group (S-A-P) is an aviation consulting firm that specializes in the preparation of aviation activity forecasts and strategic business plans. Over the past 16 years, staff of The S-A-P Group have prepared forecasts of aviation activity in Australia (Sydney, Perth, Adelaide, Darwin), Indonesia (Jakarta), Malaysia, New Zealand (Auckland and Wellington), South Korea (Seoul), Thailand (Bangkok, Phuket, Chiang Mai, Chiang Rai, and Had Yai) and the United States (numerous). In addition, S-A-P reports have supported the initial public offering circulars of several Southeast Asia-based carriers, including AirAsia Berhad, Thai AirAsia, Garuda Indonesia Airlines, and Tiger Airways.

This report includes forecasts and other forward-looking estimates. These forward-looking statements are necessarily based on various assumptions and estimates that are inherently subject to various risks and uncertainties relating to possible invalidity of the underlying assumptions and estimates and possible changes or development of social, economic, business, industry, market, legal, government, and regulatory circumstances and conditions and actions taken or omitted to be taken by others.

Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic and competitive market conditions and future government and business decisions, all of which are difficult or impossible to predict accurately. This report contains information supplied by and analysis based on public and private sources. To the extent such sources have been cited herein, we hereby confirm that the S-A-P Group is allowed to reference such sources. While we believe that the information is correct, we cannot guarantee its validity. Some amounts in this report are rounded. Financial and operating data for some air carrier groups may include cargo and other activities.

We acknowledge that this report will be included in the Prospectus and we further confirm that we are aware of our responsibilities under Section 215 of the Capital Markets and Services Act 2007 of Malaysia.

We further acknowledge that if we are aware of any significant changes to the adequacy of the information in this report between the date of this report and the issue date of the Prospectus, or after the issue of the Prospectus and before the issue of the securities, we have an on-going obligation to either cause this report to be updated so as to correct any inaccuracies, and, where applicable, cause AirAsia X to issue a supplementary prospectus, or, should they fail to do so, withdraw our consent to the inclusion of this report in the Prospectus."

STRATEGIC AIRPORT PLANNING LTD

Date of report: 22 MAY 2013

Bill A. Matz
Managing Director

INDEPENDENT REPORT OF THE AVIATION CONSULTANT

AirAsia X Berhad

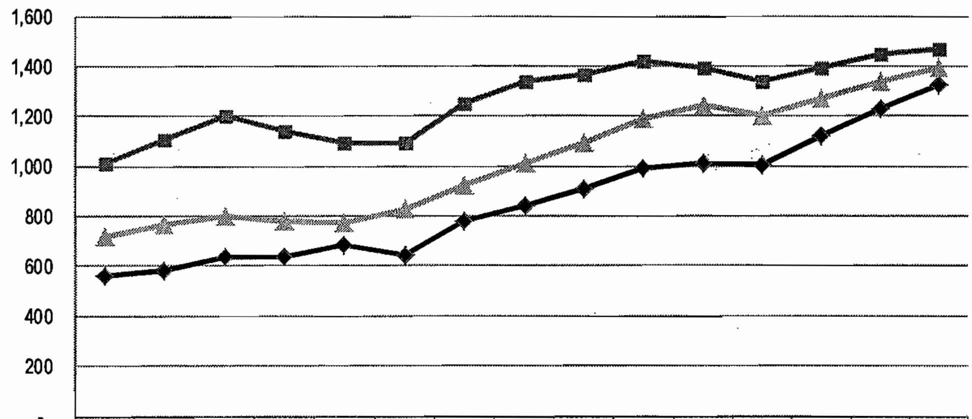
1 OVERVIEW AND OUTLOOK OF GLOBAL AVIATION TRENDS

1.1 Historical Activity

Historically, air travel activity has shown a strong statistical relationship with overall economic activity, as measured by gross domestic product (GDP). From 1971 to 2012, world GDP grew at a CAGR of 3.0%, while world airline RPKs grew at twice the rate, at a CAGR of 6.0%.

Aviation activity in the Asia-Pacific region has grown rapidly since 1998, as shown below. From 1998 to 2012, RPKs in the Asia-Pacific region grew 137% while during the same period RPKs grew 45% in North America and 94% in Europe. Asia-Pacific region air passenger traffic, as measured in RPKs, is nearly that of North America.

REVENUE PASSENGER KILOMETERS (RPKs; billions)
Asia Pacific, North America, and Europe
1998~2012



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Asia Pacific	559	585	637	639	683	643	780	839	912	993	1,011	1,007	1,122	1,230	1,321
North America	1,011	1,105	1,205	1,138	1,091	1,090	1,251	1,339	1,364	1,419	1,390	1,335	1,395	1,445	1,470
Europe	718	765	798	777	773	830	926	1,010	1,094	1,186	1,245	1,203	1,267	1,340	1,393

Unit: RPK billions.
Source: Euromonitor International from International Civil Aviation Organization (ICAO), United Nations, World Bank, national statistics, and IATA Air Transport Market Analysis, March 2013.

1.2 Asia Pacific Aviation Demand Forecasts

FORECAST AVERAGE ANNUAL PASSENGER GROWTH RATES
Activity (in RPKs) Between Regions of the World
2011~2031

	Forecast CAGR					
Region	Africa	Latin America	Middle East	Europe	North America	Asia-Pacific
Asia Pacific	7.4%	5.4%	7.2%	5.7%	4.8%	6.7%
North America	6.0%	5.1%	6.4%	3.8%	2.2%	
Europe	4.8%	4.6%	5.1%	3.5%		
Middle East	6.9%	n.a.	5.1%			
Latin America	8.3%	6.5%				
Africa	6.2%					
Total global/regional	5.6%	6.6%	6.4%	4.1%	2.8%	6.4%

Source: The Boeing Company, Current Market Outlook 2012, September 2012.

HISTORICAL AND FORECAST ANNUAL PASSENGER GROWTH RATES
Activity (in RPKs) Within and Between Southeast Asia and Other Regions of the World
1985 to 2031

	CAGR						
	Historical						Forecast
	1985~1990	1990~1995	1995~2000	2000-2005	2005~2010	**1985~2011**	**2011~2031**
Within Southeast Asia	11.1%	12.5%	-0.1%	12.2%	6.2%	**8.4%**	**7.6%**
Between Southeast Asia and:							
China	12.4%	9.7%	5.0%	13.8%	3.6%	**9.0%**	**7.7%**
Oceania	14.7%	6.4%	6.9%	4.2%	2.0%	**6.8%**	**5.1%**
Middle East	-6.2%	13.4%	3.1%	4.2%	13.8%	**5.5%**	**6.4%**
North America	13.8%	11.1%	4.4%	1.9%	-2.7%	**5.4%**	**5.8%**
Northeast Asia	15.2%	6.4%	1.8%	7.9%	1.2%	**6.7%**	**5.4%**
Europe	11.8%	7.3%	7.8%	0.9%	-0.1%	**5.4%**	**5.0%**
South Asia	0.5%	6.9%	6.2%	18.1%	14.5%	**9.4%**	**9.5%**

Source: The Boeing Company, Current Market Outlook reports, 2001 through September 2012.
Northeast Asia: Japan, North Korea and South Korea
South Asia: India, Pakistan, and Afghanistan
Southeast Asia: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam

1.3 Aviation Supply Forecast Considerations

Aircraft manufacturers such as Boeing and Airbus forecast continued growth in demand for new aircraft and continue to make investments to meet this demand. Airbus forecasts 28,200 new aircraft will be needed for the 20-year period from 2012 to 2031.[1] Boeing forecasts a demand for 34,000 new aircraft for the same period.[2] The primary difference between the two forecasts is different opinions about average aircraft size.

Aircraft supply and demand in the airline industry can be balanced with fleet adjustments by airlines and production shifts by manufacturers. Therefore, although supply and demand may not balance in the short term, in the medium to long term, aircraft capacity is managed through aircraft retirements, sales, returns to lessors, and other fleet management actions, and aircraft and production shifts by manufacturers as long-term orders change.

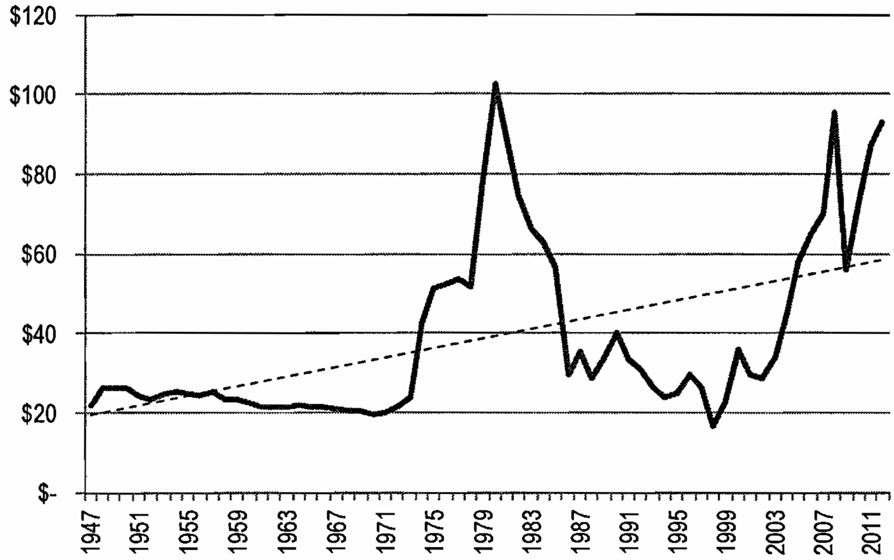
[1] Airbus Global Market Forecast, 2012.
[2] Boeing Current Market Outlook, 2012.

1.4 Fuel Prices

Fuel price changes have affected aviation traffic as airline cost structures are sensitive to changes in aircraft fuel. Political turmoil, terrorism, war and other events affecting major suppliers of oil have led to large fluctuations in fuel prices since 1980, ranging from 60% increases to 47% decreases in inflation-adjusted costs per barrel year over year.[3]

The impact of recent fuel price increases on resulting airline cost structures has been changes in airline service, fares, and traffic. Fares typically increase after fuel prices increase. To the extent that airlines are unable to pass through fuel cost increases to customers in the form of higher fares or surcharges, airline profits typically decrease. The figure below illustrates how crude oil prices have increased from 1947 to 2012.

ANNUAL AVERAGE DOMESTIC CRUDE OIL PRICES
US Average; Inflation-Adjusted US$ per bbl.)
1947~2012



Based on data from IOGA.
http://inflationdata.com/inflation/inflation_Rate/Historical_Oil_Prices_Table.asp, March 2013.

[3] Based on historical data provided by IOGA and WTRG Economics, http://inflationdata.com/inflation/inflation_Rate/Historical_Oil_Prices_Table.asp

1.5 Aviation in Southeast Asia

The Asia-Pacific region's passenger growth rates in RPK are forecasted to remain robust, at a CAGR of 6.7% from 2011 to 2031, surpassing North America as the world's largest aviation market.[4]

Within Asia Pacific, the Southeast Asia region is expected to be one of the strongest regions for traffic growth measured in RPK, with the CAGR forecasted at 7.6% over the same time period. These high growth rates are the result of several factors, including:

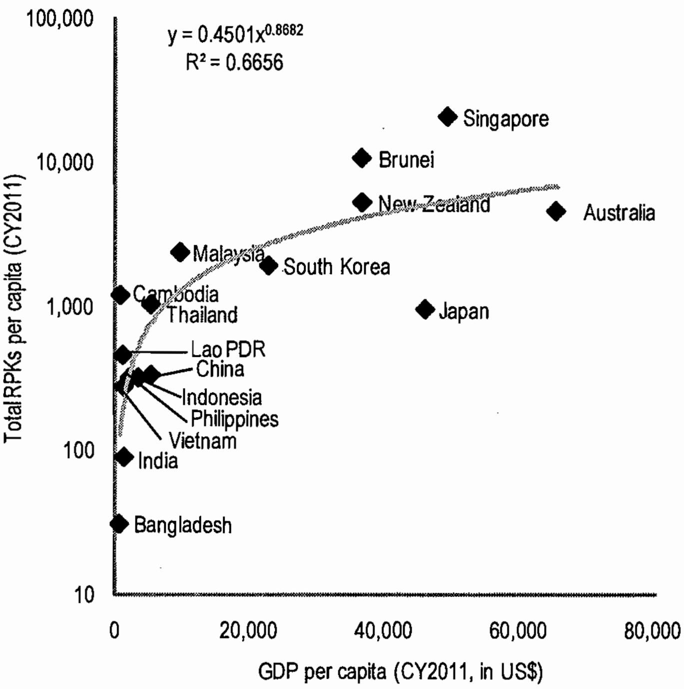
- Market liberalization efforts, including open skies agreements between ASEAN nations which have allowed for increased competition and facilitated the development of LCCs, leading to reduced airfares and the introduction of new services and markets. Discussion of market liberalization in the region is provided in Section 3.2.
- Strong economic growth in most countries, leading to increased demand for domestic and international passenger services and for inbound transportation of goods.
- Continued long-term economic growth across Asia in general and other parts of the world, leading to strong demand for international passenger and cargo services.

[4] Airbus Global Market Forecast, 2012.

The propensity to travel in Malaysia relative to the country's per capita income levels is high relative to other countries at similar levels of GDP per capita. This is attributable, in part, to the country's well developed airline industry and high market share of LCCs.

RELATIONSHIPS BETWEEN PER CAPITA GROSS DOMESTIC PRODUCT (GDP) AND AIR TRAVEL
Countries in the Asia-Pacific Region and the US
2011

Country	Domestic and int'l RPKs (millions)	Per capita GDP (in current US$)	Per capita Domestic and int'l RPKs
Australia	103,345	65,477	4,547
Bangladesh	5,195	678	31
Brunei	4,492	36,548	10,569
Cambodia	18,000	852	1,192
China	451,162	5,414	335
India	108,922	1,389	90
Indonesia	77,224	3,509	320
Japan	121,754	45,920	953
Lao PDR	3,000	1,204	458
Malaysia	67,773	9,700	2,359
New Zealand	22,983	36,651	5,204
Philippines	30,714	2,223	320
Singapore	108,048	49,270	20,487
South Korea	93,858	22,778	1,915
Thailand	65,783	5,394	1,027
Vietnam	24,791	1,374	278
US	1,310,556	48,387	4,201



Sources: The S-A-P Group reference files, including ICAO, 2011 Annual Report and IMF estimated 2011 GDP and Population figures.
Note: Amounts include domestic and international air travel to/from reporting airports in the countries shown and may include some transfer passengers.

1.5.1 *Population and Urbanization*

The population of Southeast Asia is estimated by the IMF to grow at a CAGR of 1.5% from 2012 to 2017, which compares to a CAGR estimate of 1.2% for the world during the same period.

Malaysia's population is forecast by the IMF to grow at a CAGR of 1.8% from 2012 to 2017.

POPULATION INDICATORS
Countries in the Asia-Pacific Region
Multiple Years

	Actual Population			Estimated Population		CAGR Historical	CAGR Projected
Country	2000	2005	2010	2012	2017	2000~2012	2012~2017
Indonesia	206,265,000	221,398,000	237,641,000	244,468,000	262,404,000	1.4%	1.4%
Philippines	76,790,000	85,260,000	94,010,000	97,737,000	107,871,000	2.0%	2.0%
Vietnam	77,635,000	83,106,000	88,257,000	90,388,000	95,943,000	1.3%	1.2%
Thailand	61,879,000	62,418,000	63,878,000	64,460,000	66,418,000	0.3%	0.6%
Myanmar	50,130,000	55,392,000	61,187,000	63,672,000	70,334,000	2.0%	2.0%
Malaysia	23,495,000	26,477,000	28,251,000	29,038,000	31,789,000	1.8%	1.8%
Cambodia	12,680,000	13,828,000	14,953,000	15,254,000	16,032,000	1.6%	1.0%
Laos	5,317,000	5,753,000	6,201,000	6,376,000	7,320,000	1.5%	2.8%
Singapore	4,138,000	4,401,000	5,184,000	5,366,000	5,849,000	2.2%	1.7%
East Timor	818,000	946,000	1,067,000	1,119,000	1,254,000	2.6%	2.3%
Brunei	325,000	370,000	414,000	434,000	484,000	2.4%	2.2%
Countries shown above	519,472,000	559,349,000	601,043,000	618,312,000	665,698,000	1.5%	1.5%
China	1,267,430,000	1,307,560,000	1,340,910,000	1,353,821,000	1,389,073,000	0.6%	0.5%
India	1,024,250,000	1,110,000,000	1,190,524,000	1,223,170,000	1,305,774,000	1.5%	1.3%
Japan	126,829,000	127,775,000	128,048,000	127,611,000	124,543,000	0.1%	-0.5%
South Korea	47,008,000	48,138,000	49,410,000	50,010,000	49,791,000	0.5%	-0.1%
Australia	19,273,000	20,544,000	22,183,000	22,683,000	24,488,000	1.4%	1.5%
New Zealand	3,863,000	4,142,000	4,369,000	4,463,000	4,692,000	1.2%	1.0%
World Total	5,956,162,000	6,393,765,000	6,807,200,000	6,937,895,000	7,362,940,000	1.3%	1.2%

Source: IMF World Economic Outlook Database, October 2012.
Note: Some amounts are estimated.

Increased urbanization is likely to drive increases in air travel as larger portions of a region's population become concentrated in the vicinity of airports, allowing residents easier access to air travel. Additionally, income levels of people typically increase after they move to urban areas, often leading to increased propensities to travel.

1.5.2 *Tourism and Air Travel in Southeast Asia*

Increased intra-regional business and reduced trade barriers between countries generate cross-border travel demand. High levels of trade and other commercial activities lead to increased demand for travel, which includes air travel for business and tourism. Global trade is expected to continue growing at 4.5% in 2013.[5] Most countries in Asia have been moving toward increased business relationships, reduced trade barriers, increased trade and tourism, and increased air travel levels.

HISTORICAL AND FORECAST ANNUAL PASSENGER GROWTH RATES
Activity (in RPKs) Within Regions of the World
1985 to 2031

	CAGR						
	Historical						**Forecast**
	1985~1990	1990~1995	1995~2000	2000-2005	2005~2010	**1985~2011**	**2011~2031**
Global	6.8%	3.3%	5.6%	3.6%	3.9%	**4.7%**	**5.0%**
Within regions							
within China	16.7%	25.4%	4.7%	18.2%	15.4%	**15.8%**	**6.9%**
within Europe	8.7%	3.5%	7.5%	5.0%	2.6%	**5.4%**	**3.5%**
within Middle East	1.9%	1.3%	6.1%	11.8%	9.8%	**6.1%**	**5.1%**
within North America	4.6%	2.6%	5.1%	2.5%	-1.0%	**2.8%**	**2.2%**
within Northeast Asia	9.2%	6.1%	3.1%	-2.3%	0.9%	**3.1%**	**3.0%**
within Oceania	7.1%	10.2%	2.9%	5.8%	3.7%	**6.0%**	**4.4%**
within South America	2.8%	3.2%	5.1%	4.7%	12.6%	**6.0%**	**6.9%**
within South Asia	2.1%	5.6%	1.0%	9.5%	14.5%	**6.8%**	**9.5%**
within Southeast Asia	11.1%	12.5%	-0.1%	12.2%	6.2%	**8.4%**	**7.6%**

Source: The Boeing Company, Current Market Outlook reports, 2001 through September 2012.
Northeast Asia: Japan, North Korea and South Korea
South Asia: India, Pakistan, and Afghanistan
Southeast Asia: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam
Oceania: Australia, New Zealand, Melanesia, Micronesia and Polynesia

[5] World Trade Organization, 21 September 2012, http://rt.com/business/wto-economic-growth-forecast2012-655/

1.6 Aviation in Malaysia

1.6.1 *Economic Growth in Malaysia and the Surrounding Region*

GDP in Malaysia grew 16.7%[6] from 2010 to 2011, far outperforming most other countries in the world. Growth rates in China and other countries in Asia are expected to have been lower in 2012, but Malaysia has continued growing through previous economic slowdowns, experiencing a 10.4% CAGR in GDP (in current prices, US dollars) from 2000 to 2012. Southeast Asia's GDP (in current prices, US dollars) grew at a CAGR of 11.8% during the same period.[7]

Based on the growth that has occurred during the global economic slowdown and other crises during the last decade, S-A-P expects that the region will continue experiencing economic growth in the future. Malaysia- and foreign-based airlines have the opportunity to benefit from the air travel demand spurred by regional economic growth.

S-A-P anticipates that as the economy develops and the middle class grows and becomes a larger share of the population, air travel demand will increase. S-A-P also anticipates that as the middle class grows in Malaysia's secondary cities, demand for service from these cities to new domestic and international destinations will increase.

This service can be supported by the increased use of small, regional jets. Additionally, as LCC development continues in Malaysia and throughout the region, it is expected that lower average fares will result in increased demand for air travel.

Population growth and urbanization are expected to result in further aviation growth in Malaysia. As urbanization and population growth combine with continued economic growth, income per capita is expected to increase, resulting in growth in the middle class in Malaysia.

[6] GDP growth in Malaysia from 2010 to 2011 was 11.3% in national currency, current prices and 5.1% in national currency, constant prices. Source: IMF World Economic Outlook Database, October 2012.

[7] Source: IMF World Economic Outlook Database, October 2012. Amounts are in current prices, US dollars.

1.6.2 *Tourism in Malaysia*

As shown below, tourist arrivals to Malaysia have grown at a CAGR of 6.3% from 2001 to 2012, despite several disruptions to travel in the region caused by economic downturns and natural disasters.

INTERNATIONAL TOURIST ARRIVALS IN MALAYSIA
FROM THE 10 LEADING COUNTRIES OF ORIGIN
Malaysia
2001-2012

	Tourist Arrivals in Malaysia		
	Arrivals		CAGR
Country	2001	2012	2001~2012
Singapore	6,951,594	13,014,268	5.9%
Indonesia	777,449	2,382,606	10.7%
China	597,857	1,558,785	9.1%
Thailand	1,018,797	1,263,024	2.0%
Brunei	309,529	1,258,070	13.6%
India	143,513	691,271	15.4%
Philippines	122,428	508,744	13.8%
Australia	222,340	507,948	7.8%
Japan	397,639	470,008	1.5%
United Kingdom	262,423	402,207	4.0%
Other	1,971,504	2,975,777	3.8%
Total	12,775,073	25,032,708	6.3%

Source: Tourism Malaysia and the Malaysian Immigration Department, March 2013.
http://corporate.tourism.gov.my/images/research/pdf/2012/TouristArrivals_JanDec_2012.pdf

As shown below, Malaysia was one of only two Asian countries included in the world's top 10 countries for international tourist arrivals in 2011.

INTERNATIONAL TOURIST ARRIVALS IN THE 10 LEADING COUNTRIES OF DESTINATION
World
2010-2011

		Tourist Arrivals (millions)		
		Arrivals		CAGR
Rank	Country	2010	2011	2010~2011
1	France	77.1	79.5	3.0%
2	United States	59.8	62.3	4.2%
3	China	55.7	57.6	3.4%
4	Spain	52.7	56.7	7.6%
5	Italy	43.6	46.1	5.7%
6	Turkey	27.0	29.3	8.7%
7	United Kingdom	28.3	29.2	3.2%
8	Germany	26.9	28.4	5.5%
9	Malaysia	24.6	24.7	0.6%
10	Mexico	23.3	23.4	0.6%

Source: World Tourism Organization (UNWTO), 2012.

1.6.3 *Service Levels at Major International Airports*

According to Malaysia Airports Holdings Berhad (MAHB), the manager of 39 airports in Malaysia, growth during 2011 was primarily due to new routes and frequencies added by airlines, particularly Firefly, AirAsia Berhad, and Malaysia Airlines. MAHB also reported that growth resulted from competitive price offerings, which have enabled more people to afford travel by air than fares previously allowed.[8] Growth slowed in 2012 due to significant reductions in capacity and the termination of some services by local carriers.[9]

Scheduled departing weekly flights and destinations served from major international airports in Asia are shown below. Activity is shown for flights with scheduled durations of four hours or less and for flights of more than four hours. In general, narrow body aircraft have a flying range of four hours and these routes would be considered short haul. Widebody aircraft have a flying range beyond four hours and these routes would be considered long haul.

[8] Malaysia Airports Holdings Berhad Annual Report, 2011.
[9] Malaysia Airports Holdings Berhad Annual Report, 2012.

SCHEDULED DEPARTING FLIGHTS AND DESTINATIONS SERVED, BY FLIGHT SCHEDULE DURATION
Major International Airports in Asia
Week of 4~10 March 2013

	Weekly flights			Destinations served		
City-Airport	240 minutes or less	241 minutes or greater	Total	240 minutes or less	241 minutes or greater	Total
Bangkok						
Bangkok-Suvarnabhumi Int'l Airport (BKK)	1,621	912	2,533	61	66	127
Bangkok-Don Mueang Int'l Airport (DMK)	1,139	28	1,167	41	4	45
Subtotal	2,760	940	3,700	102	70	172
Jakarta-Soekarno Hatta Int'l Airport (CGK)	3,451	235	3,686	42	34	76
Hong Kong Int'l Airport (HKG)	2,136	657	2,793	74	58	132
Kuala Lumpur Int'l Airport (KUL)	2,334	512	2,846	64	50	114
Singapore-Changi Airport (SIN)	1,913	1,096	3,009	58	70	128
Average for the five cities shown	2,519	688	3,207	68	56	124

	% difference from average					
	Weekly flights			Destinations served		
City-Airport	240 minutes or less	241 minutes or greater	Total	240 minutes or less	241 minutes or greater	Total
Bangkok						
Bangkok-Suvarnabhumi Int'l Airport (BKK)	-35.6%	32.6%	-21.0%	-10.3%	17.0%	2.1%
Bangkok-Don Mueang Int'l Airport (DMK)	-54.8%	-95.9%	-63.6%	-39.7%	-92.9%	-63.8%
Subtotal	9.6%	36.6%	15.4%	50.0%	24.1%	38.3%
Jakarta-Soekarno Hatta Int'l Airport (CGK)	37.0%	-65.8%	14.9%	-38.2%	-39.7%	-38.9%
Hong Kong Int'l Airport (HKG)	-15.2%	-4.5%	-12.9%	8.8%	2.8%	6.1%
Kuala Lumpur Int'l Airport (KUL)	-7.3%	-25.6%	-11.3%	-5.9%	-11.3%	-8.4%
Singapore-Changi Airport (SIN)	-24.1%	59.3%	-6.2%	-14.7%	24.1%	2.9%

Source: The S-A-P Group analysis, based on OAG data, March 2013.

1.6.4 *Passenger Activity Levels at KLIA, by Airline*

As shown below, the largest share of passenger traffic at KLIA is operated by AirAsia. The next three largest carriers in terms of market share at KLIA are Malaysia Airlines, AirAsia X, and Indonesia AirAsia, with AirAsia X accounting for an 8.9% share of the international market, representing the third largest market share of international passenger movements at KLIA.

Low-cost carrier operations in Malaysia have created significant changes to the market since commencement of operations in 2002, resulting in changes including reduced airfares and increased affordability of air travel in the country.

During the week of 4~10 March 2013, the LCCT at KLIA served 1,401 scheduled commercial passenger flights to 73 destinations. During the same period, KLIA (inclusive of both the LCCT and the main passenger terminal complex) served 2,846 scheduled commercial passenger flights to 114 destinations.[10]

PASSENGER ACTIVITY LEVELS AT KLIA
(MAIN PASSENGER TERMINAL COMPLEX AND LCCT)
International and Domestic Passenger Movements, by Airline
2010~2012

	2010	2011	2012					
Airline	Total passengers	Total passengers	Dom	Market Share	Int'l	Market Share	Total passengers	Market Share
AirAsia	11,898,089	13,064,014	7,349,616	61.8%	7,218,032	25.8%	14,567,648	36.5%
Malaysia Airlines	12,146,702	12,391,538	4,551,652	38.2%	8,181,432	29.2%	12,733,084	31.9%
AirAsia X	1,821,207	2,388,702			2,482,380	8.9%	2,482,380	6.2%
Indonesia AirAsia	961,665	1,213,421			1,258,293	4.5%	1,258,293	3.2%
Emirates	648,244	725,500			814,939	2.9%	814,939	2.0%
Cathay Pacific Airways	671,127	678,633			711,922	2.5%	711,922	1.8%
Qatar Airways	n.a.	n.a.			457,898	1.6%	457,898	1.1%
KLM-Royal Dutch Airlines	n.a.	443,291			443,915	1.6%	443,915	1.1%
SilkAir	422,082	426,882			409,434	1.5%	409,434	1.0%
Thai Airways International	387,960	370,782			399,741	1.4%	399,741	1.0%
Other	5,130,560	6,001,747	190	0.0%	5,608,422	20.0%	5,608,612	14.1%
Total	34,087,636	37,704,510	11,901,458	100.0%	27,986,408	100.0%	39,887,866	100.0%

Source: Malaysia Airports Holdings Berhad Annual Report 2012. Includes data for airlines with 1.0% or greater international passenger market share in 2012.
Note: Some amounts, due to rounding, may not sum to 100.0%.

[10] Source: The S-A-P Group analysis, based on OAG data, March 2013.

PASSENGER ACTIVITY LEVELS AT KLIA (MAIN PASSENGER TERMINAL COMPLEX AND LCCT) International and Domestic Movements, by Route 2007~2012

Rank 2012	Origin/Destination	Passenger Movements to/from KLIA 2007	2008	2009	2010	2011	2012	CAGR 2007~2012	KLIA Routes Served by AirAsia X: Year of Route Launch	Growth From Year Before Launch to 2012	CAGR From Year Before Launch to 2012
1	Singapore	1,699,108	1,905,855	2,485,090	2,734,086	2,944,187	3,110,166	12.9%	-	-	-
2	Jakarta	1,106,329	1,119,113	1,214,040	1,336,466	1,551,994	1,843,397	10.8%	-	-	-
3	Bangkok	1,345,690	1,268,598	1,258,960	1,360,626	1,470,878	1,454,245	1.6%	-	-	-
4	Hong Kong	895,639	926,656	955,453	1,237,450	1,302,657	1,309,000	7.9%	-	-	-
5	Denpasar	471,794	549,065	670,976	712,505	794,578	782,861	10.7%	-	-	-
6	Ho Chi Minh City	262,533	311,487	397,705	566,869	655,095	733,523	22.8%	-	-	-
7	Taipei (a)	360,161	350,154	430,905	661,863	654,559	695,284	14.1%	2009	98.6%	18.7%
8	Melbourne (a)	362,446	358,080	504,552	709,209	688,081	635,105	11.9%	2008	75.2%	11.9%
9	Dubai	358,240	403,773	481,783	568,238	615,068	631,210	12.0%	-	-	-
10	Guangzhou	235,348	318,188	412,297	461,347	596,188	608,533	20.9%	-	-	-
11	Medan	348,121	348,226	396,554	455,726	530,700	585,430	11.0%	-	-	-
12	Phuket	292,450	304,441	348,285	428,305	519,781	574,935	14.5%	-	-	-
13	Seoul (a)	251,708	265,122	229,369	339,921	519,065	565,936	17.6%	2010	146.7%	35.1%
14	London--Total (b)	428,908	400,564	525,077	598,152	590,252	525,559	4.1%	2009	31.2%	7.0%
15	Surabaya	399,757	426,637	456,726	509,960	551,219	521,061	5.4%	-	-	-
	Other Routes; Served by AirAsia X (a)										
	Sydney	373,083	322,769	259,626	301,417	381,442	506,610	6.3%	2012	32.8%	32.8%
	Perth	223,129	224,566	371,955	424,796	449,848	466,457	15.9%	2008	109.1%	15.9%
	Beijing	240,923	203,481	203,145	236,689	246,473	389,567	10.1%	2012	58.1%	58.1%
	Shanghai	355,968	287,873	267,667	382,502	378,116	381,174	1.4%	2013	-	-
	Tokyo--Total (c)	383,104	345,631	312,329	366,340	370,426	494,214	5.2%	2010	58.2%	16.5%
	Jeddah	165,864	181,297	185,317	202,049	279,496	311,508	13.4%	2013	-	-
	Osaka	143,155	148,985	124,877	129,699	123,549	230,883	10.0%	2011	78.0%	33.4%
	Hangzhou	1,308	101,948	154,009	205,913	200,856	217,951	178.2%	2008	16562.9%	178.2%
	Gold Coast--Updated (d)	125,014	193,424	191,178	284,654	303,686	272,161	16.8%	2007	112.6%	13.4%
	Kathmandu	50,733	85,949	60,488	71,257	79,530	157,141	25.4%	2012	97.6%	97.6%
	Chengdu	2,150	460	24,334	142,730	135,995	134,500	128.7%	2009	29139.1%	313.5%
	Other Routes; No Longer Served by AirAsia X										
	Paris--Total (e)	159,943	146,346	124,689	155,432	255,405	196,848	4.2%	2011	26.6%	12.5%
	Christchurch	-	-	-	-	87,881	48,701	-	2011	-	-
	Delhi	225,939	212,870	169,286	265,453	408,479	285,683	4.8%	2010	68.8%	19.1%
	Bombay	180,750	156,197	146,538	204,901	256,943	198,135	1.9%	2010	35.2%	10.6%
	Tehran	72,474	21,806	-	150,169	227,728	206,552	23.3%	2010	-	-
	Tianjin	-	-	70,960	119,649	133,117	72,972	-	2009	-	-
	Other	5,443,527	5,947,106	5,967,502	7,078,054	7,612,451	8,839,106	10.2%			
	International	16,965,296	17,836,667	19,401,672	23,402,427	25,915,723	27,986,408	10.5%			
	Domestic	9,488,083	9,692,688	10,280,421	10,685,209	11,788,787	11,901,458	4.6%			
	Total movements	26,453,379	27,529,355	29,682,093	34,087,636	37,704,510	39,887,866	8.6%			

Source: Malaysia Airports Holdings Berhad Annual Reports, 2008-2012

(a) Routes served by AirAsia X during the week of 4~10 March 2013.

(b) Stansted Airport and, later, Gatwick Airport, which were served by AirAsia X until March 2012, and Heathrow Airport. The three airports serve the same catchment area.

(c) Tokyo-Haneda Airport, which is served by AirAsia X, and Tokyo-Narita International Airport. The two airports serve the same catchment area.

(d) Gold Coast Airport, which is served by AirAsia X, and Brisbane Airport. The two airports serve the same catchment area.

(e) Paris-Orly Airport, which was served by AirAsia X, and Paris Charles de Gaulle Airport. The two airports serve the same catchment area.

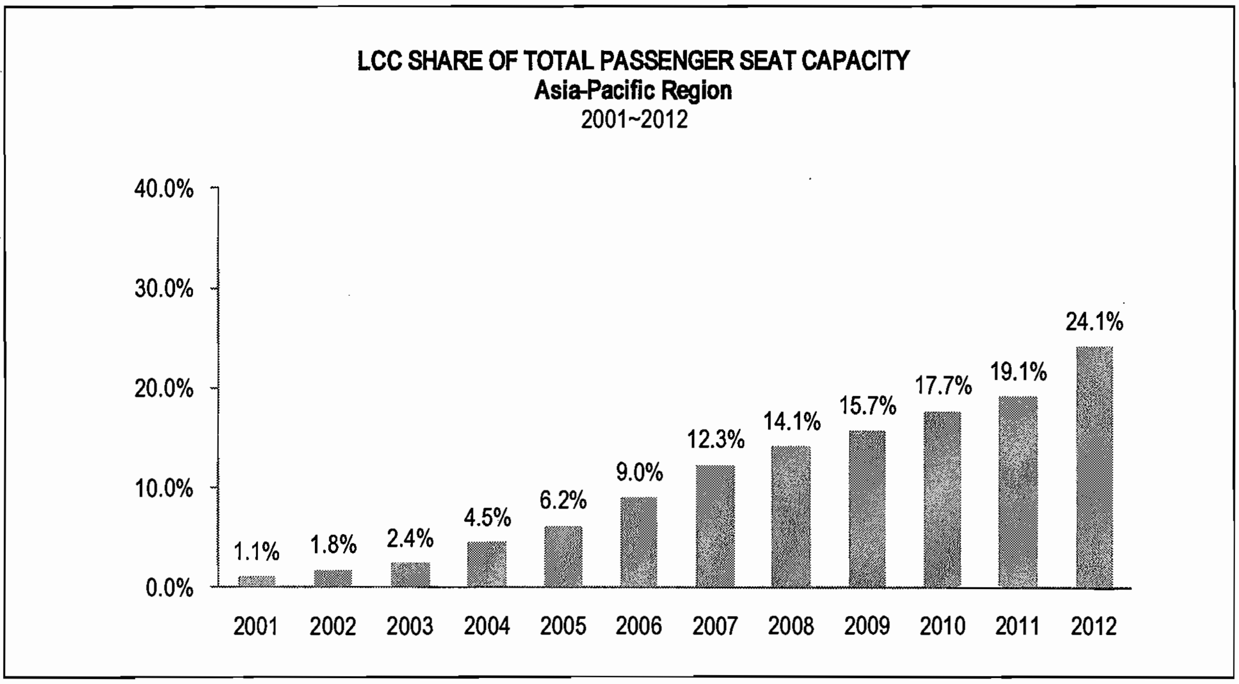
1.6.5 *Future Activities at KLIA*

MAHB is in the process of developing a second terminal, KLIA2, which may become operational in late 2013 and is proposed to be the largest terminal in the world dedicated to low cost carriers. The terminal building is designed for the purpose of facilitating travel between low cost carriers and full service carriers.[11]

2 EVOLUTION OF THE LOW COST CARRIER BUSINESS MODEL

2.1 Introduction

Over the past four decades, and particularly during the last 10 years, the low cost carrier (LCC) model has grown rapidly to become a dominant model in the industry. Southwest Airlines in the United States, which began service in 1971, is widely considered the pioneer of the LCC model. In Asia Pacific, LCCs operated 24.1% of total seat capacity.[12]



2.2 The LCC Business Model

LCCs are defined by their ability to achieve drastically reduced unit operating costs. As a result, the average airfares they offer can be substantially lower than those of other carriers. In their pursuit of keeping costs low, LCCs typically have most, but not necessarily all, of the following operating and financial characteristics:

[11] Malaysia Airports Holdings Berhad Annual Report, 2011
[12] CAPA (Centre for Aviation), based on OAG data, 2013.

2.2.1 *Operating Characteristics*

- Primarily point-to-point services. Limited number of stops or transfers, avoiding costs associated with passenger transfers
- Use of secondary airports, which are often less congested than primary airports, leading to higher levels of dispatch reliability and lower costs of delays and rescheduling of flights
- Fast aircraft turnaround times, to maximize aircraft utilization and employee efficiency
- Flight lengths of 600 km to 2,500 km (under four hours), operating ranges that are particularly efficient for short-haul LCC
- Single fleet types, which reduce maintenance and training costs
- Young fleets, leading to reduced aircraft maintenance costs when compared to fleets of older aircraft.
- Medium capacity, jet aircraft (approximately 100 to 180 seats)
- Single-class service, with higher seat densities than most similarly sized economy class cabins, resulting in the spreading of costs across a greater number of available seats to be sold, lowering overall average costs per passenger
- Limited complimentary offerings. Catering (food/beverages) and checked baggage may be available only on a paid basis.
- Limited cargo services, as they can add time to aircraft turnaround times
- Flexible, entrepreneurial corporate cultures that may not exist at larger, entrenched carriers, that can result in more efficient operations and lower employee costs

2.2.2 *Financial Characteristics*

- Lower-than-average airport costs. Secondary airport charges in many countries are often lower than those of larger, primary or hub airports. In addition, minimal congestion at secondary airports optimizes aircraft turnaround times.
- Lower-than-average airfares. Average airfares are usually lower at LCCs than at full-service carriers, enabled by their lower cost structures. Low passenger airfares at LCCs are also partially offset by their higher-than-average aircraft occupancy levels. Some LCC tickets are fully non-refundable and non-rebookable if the passenger cannot travel as originally planned.
- Ancillary revenues. LCCs usually charge for drinks and meals and some have only limited free checked baggage allowances. Some LCCs add surcharges to their airfares for items that would normally be covered as a normal operating expense (such as ticketing and administration fees). LCCs are often aggressive in the sale of ancillary travel products.