

THAI AIRASIA COMPANY LIMITED

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2013



AUDITOR'S REPORT

To the Shareholders of Thai AirAsia Company Limited

I have audited the accompanying financial statements of Thai AirAsia Company Limited, which comprise the statement of financial position as at 31 December 2013, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thai AirAsia Company Limited as at 31 December 2013, and its results of operations and its cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

A handwritten signature in blue ink, appearing to read "Chanchai Chaiprasit", is written over a faint, illegible stamp.

Chanchai Chaiprasit
Certified Public Accountant (Thailand) No. 3760
PricewaterhouseCoopers ABAS Ltd.

Bangkok
3 March 2014

Thai AirAsia Company Limited
Statement of Financial Position
As at 31 December 2013

		31 December	31 December	(Restated)
		2013	2012	1 January
	Notes	Baht	Baht	2012
		Baht	Baht	Baht
Assets				
Current assets				
Cash and cash equivalents	7	1,956,554,421	3,847,787,525	1,359,702,567
Cash at financial institutions pledged as security		13,356,900	17,383,211	14,458,500
Short-term investments	8	3,448,628,170	2,295,900,960	9,120,279
Investments in private funds	9	1,032,551,182	-	-
Trade and other receivables, net	10	723,504,686	378,777,465	191,835,196
Amounts due from related parties	24.5	87,240,764	210,772,034	275,965,053
Inventories		68,967,914	58,345,198	51,232,834
Prepaid expenses		342,969,100	233,859,145	225,538,898
Value added tax receivable, net		78,686,650	99,289,077	689,158,323
Other current assets		40,131,847	13,436,177	19,339,214
Total current assets		7,792,591,634	7,155,550,792	2,836,350,864
Non-current assets				
Cash at financial institutions pledged as security		339,189,114	7,714,350	56,000,000
Long-term investments	11	1,310,548,600	8,769,300	6,929,500
Aircraft, leasehold improvements and equipment, net	12	10,835,933,219	2,923,551,143	302,933,748
Intangible assets, net	13	11,959,429	11,810,335	14,260,815
Deferred tax assets	2.3, 16	-	-	170,838,613
Other non-current assets	14	817,647,640	673,281,007	573,371,519
Total non-current assets		13,315,278,002	3,625,126,135	1,124,334,195
Total assets		21,107,869,636	10,780,676,927	3,960,685,059

The accompanying notes are an integral part of these financial statements.

Thai AirAsia Company Limited
Statement of Financial Position (Cont'd)
As at 31 December 2013

		31 December	31 December	(Restated)
		2013	2012	1 January
	Notes	Baht	Baht	2012
		Baht	Baht	Baht
Liabilities and shareholders' equity				
Current liabilities				
Trade accounts payable		152,951,492	70,988,769	105,931,528
Other accounts payable		124,132,639	105,991,639	66,368,776
Amounts due to related parties	24.6	506,830,215	427,725,470	361,092,140
Deferred revenues		4,299,163,449	3,582,160,385	2,716,364,349
Accrued expenses		1,390,023,204	551,972,590	476,097,173
Current portion of long-term borrowing from a financial institution		-	-	486,000,000
Current portion of finance lease liabilities	15	615,065,684	137,142,871	4,767,819
Income tax payable		150,473,336	66,819,634	-
Other current liabilities		24,363,700	19,164,817	14,029,860
Total current liabilities		7,263,003,719	4,961,966,175	4,230,651,645
Non-current liabilities				
Long-term borrowing from a financial institution		-	-	13,163,251
Finance lease liabilities	15	7,545,773,009	1,783,112,423	9,254,534
Deferred tax liabilities, net	16	309,747,735	27,816,517	-
Employee benefit obligations	18	132,997,460	111,846,384	82,752,289
Total non-current liabilities		7,988,518,204	1,922,775,324	105,170,074
Total liabilities		15,251,521,923	6,884,741,499	4,335,821,719

The accompanying notes are an integral part of these financial statements.

Thai AirAsia Company Limited
Statement of Financial Position (Cont'd)
As at 31 December 2013

	Note	31 December 2013 Baht	31 December 2012 Baht	(Restated) 1 January 2012 Baht
Liabilities and shareholders' equity (Cont'd)				
Shareholders' equity				
Share capital	20			
Authorised share capital				
Ordinary shares, 43,555,560 shares of par Baht 10 each (1 January 2012: 40,000,000 shares of par Baht 10 each)		435,555,600	435,555,600	400,000,000
Issued and paid-up share capital				
Ordinary shares, 43,555,560 shares of paid-up Baht 10 each (1 January 2012: 40,000,000 shares of paid-up Baht 10 each)		435,555,600	435,555,600	400,000,000
Premium on share capital		2,628,786,469	2,628,786,469	1,227,629
Retained earnings (Deficits)		2,792,005,644	831,593,359	(776,364,289)
Total shareholders' equity		5,856,347,713	3,895,935,428	(375,136,660)
Total liabilities and shareholders' equity		21,107,869,636	10,780,676,927	3,960,685,059

The accompanying notes are an integral part of these financial statements.

Thai AirAsia Company Limited
Statement of Comprehensive Income
For the year ended 31 December 2013

		(Restated)
	2013	2012
	Baht	Baht
	Notes	
Revenues	21	23,485,042,536
Operating costs		<u>(19,907,712,141)</u>
Gross profit		3,577,330,395
Net gain on exchange rates		258,149,650
Other income		<u>669,876,115</u>
Profit before expenses		4,505,356,160
Selling expenses		<u>(1,147,762,163)</u>
Administrative expenses		<u>(584,699,533)</u>
Profit before finance costs and income tax expense		2,772,894,464
Finance costs		<u>(170,971,996)</u>
Profit before income tax expense		2,601,922,468
Income tax expense	17	<u>(654,253,760)</u>
Net profit for the year		<u>1,947,668,708</u>
Other comprehensive income (expense)		
Actuarial gain (loss) on defined retirement benefit plan	18	15,929,471
Income tax relating to components of other comprehensive income (expense) for the year	17	<u>(3,185,894)</u>
Other comprehensive income (expense) for the year		<u>12,743,577</u>
Total comprehensive income for the year		<u><u>1,960,412,285</u></u>
Earnings per share		
Basic earnings per share	23	<u>44.72</u>
		<u>38.27</u>

The accompanying notes are an integral part of these financial statements.

Thai AirAsia Company Limited
Statement of Changes in Shareholders' Equity
For the year ended 31 December 2013

	Notes	Issued and paid-up share capital Baht	Premium on share capital Baht	Retained earnings (Deficits) Baht	Total Baht
Opening balance as at 1 January 2012 - as previously reported		400,000,000	1,227,629	(947,202,902)	(545,975,273)
Adjustments from the adoption of a new accounting standard	2.3	-	-	170,838,613	170,838,613
Balance after adjustment		400,000,000	1,227,629	(776,364,289)	(375,136,660)
Ordinary shares issued	20	35,555,600	2,627,558,840	-	2,663,114,440
Total comprehensive income for the year - as restated		-	-	1,607,957,648	1,607,957,648
Closing balance as at 31 December 2012		<u>435,555,600</u>	<u>2,628,786,469</u>	<u>831,593,359</u>	<u>3,895,935,428</u>
Opening balance as at 1 January 2013 - as previously reported		435,555,600	2,628,786,469	859,409,876	3,923,751,945
Adjustments from the adoption of a new accounting standard	2.3	-	-	(27,816,517)	(27,816,517)
Balance after adjustment		435,555,600	2,628,786,469	831,593,359	3,895,935,428
Total comprehensive income for the year		-	-	1,960,412,285	1,960,412,285
Closing balance as at 31 December 2013		<u>435,555,600</u>	<u>2,628,786,469</u>	<u>2,792,005,644</u>	<u>5,856,347,713</u>

The accompanying notes are an integral part of these financial statements.

Thai AirAsia Company Limited
Statement of Cash Flows
For the year ended 31 December 2013

	Notes	2013 Baht	2012 Baht
Cash flows from operating activities			
Profit before income tax expense		2,601,922,468	2,131,171,664
Adjustments for:			
Depreciation	12	369,832,817	102,116,259
Amortisation	13	4,433,844	4,135,012
Loss on disposals and write-offs of leasehold improvements, equipment and intangible assets		647,460	37,708
Employee benefit expenses	18	38,428,899	24,839,310
Net (gain) loss on exchange rates		85,855,478	(61,096,799)
Unrealised gain on fair value adjustment in investments in private funds	9	(32,551,182)	-
Finance costs		170,971,996	20,379,964
Interest income		(161,771,105)	(84,313,267)
		<u>3,077,770,675</u>	<u>2,137,269,851</u>
Changes in operating assets and liabilities:			
- Cash at financial institutions pledged as security		(327,448,453)	45,360,939
- Trade and other receivables		(328,871,752)	(168,561,478)
- Amounts due from related parties		127,600,550	51,473,441
- Inventories		(10,622,716)	(7,112,364)
- Prepaid expenses		(109,109,955)	(8,320,247)
- Value added tax receivable		20,602,427	589,869,246
- Other current assets		(26,695,670)	5,903,037
- Other non-current assets		(144,366,633)	(99,909,488)
- Trade accounts payable		81,962,723	(34,942,759)
- Other accounts payable		18,141,000	39,622,863
- Amounts due to related parties		79,104,745	66,633,330
- Deferred revenues		717,003,064	865,796,036
- Accrued expenses		783,458,847	68,673,247
- Other current liabilities		5,198,883	5,134,957
		<u>3,963,727,735</u>	<u>3,556,890,611</u>
Cash generated from operation		3,963,727,735	3,556,890,611
Interest received		24,880,543	32,776,510
Income tax paid		(291,854,734)	(253,484,467)
Employee benefit paid		(1,348,352)	-
		<u>3,695,405,192</u>	<u>3,336,182,654</u>
Net cash generated from operating activities		<u>3,695,405,192</u>	<u>3,336,182,654</u>

The accompanying notes are an integral part of these financial statements.

Thai AirAsia Company Limited
Statement of Cash Flows (Cont'd)
For the year ended 31 December 2013

	Notes	2013 Baht	2012 Baht
Cash flows from investing activities			
Payments for short-term investments		(1,152,727,210)	(2,286,996,641)
Payments for long-term investments	11	(1,301,779,300)	(1,839,800)
Purchases of securities in investments in private funds	9	(2,398,424,325)	-
Disposals of securities in investments in private funds	9	1,398,424,325	-
Proceeds from disposals of leasehold improvements and equipment		7,129,506	1,529,871
Payments for aircraft, leasehold improvements and equipment		(1,903,710,405)	(790,736,957)
Payments for intangible assets	13	(4,582,938)	(1,684,532)
Interest received		117,924,293	47,091,505
Net cash used in investing activities		<u>(5,237,746,054)</u>	<u>(3,032,636,554)</u>
Cash flows from financing activities			
Proceeds from issue of ordinary shares	20	-	2,663,114,440
Repayments of finance lease		(269,439,143)	(20,129,166)
Repayments of long-term borrowing from a financial institution		-	(499,163,251)
Interest paid		(166,777,116)	(20,379,964)
Net cash generated from (used in) financing activities		<u>(436,216,259)</u>	<u>2,123,442,059</u>
Net increase (decrease) in cash and cash equivalents		(1,978,557,121)	2,426,988,159
Cash and cash equivalents at the beginning of the year		3,847,787,525	1,359,702,567
Exchange gain on cash and cash equivalents		87,324,017	61,096,799
Cash and cash equivalents at the end of the year		<u>1,956,554,421</u>	<u>3,847,787,525</u>

Non-cash transactions

Significant non-cash transactions during the years ended 31 December 2013 and 2012 are as follows:

Purchases of aircraft spare parts which have not been paid	50,396,888	7,202,170
Purchases of aircraft under finance lease agreements	6,135,366,989	1,926,362,106

The accompanying notes are an integral part of these financial statements.

1 General information

Thai AirAsia Company Limited (“the Company”) is a limited company and incorporated in Thailand. The address of the Company’s registered office is as follows:

222, Don Mueang International Airport, 3rd floor, Central Office Building, Room no. 3200, Vibhavadee Rangsit Road, Sanam Bin district, Don Mueang, Bangkok 10210.

The principal business operation of the Company is to provide low-fare airline services.

On 4 May 2012, the Company was changed from a joint venture of Asia Aviation Public Company Limited, incorporated in Thailand and AirAsia Investment Ltd., incorporated in Malaysia to a subsidiary of Asia Aviation Public Company Limited in accordance with “Amended and Restated Shareholders’ Agreement” between Asia Aviation Public Company Limited and AirAsia Investment Ltd., which own 55% and 45% of the Company’s shares, respectively.

The financial statements were authorised for issue by the Board of Directors on 3 March 2014.

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Basis of preparation

The financial statements have been prepared in accordance with Thai Generally Accepted Accounting Principles under the Accounting Act B.E. 2543, being those Thai Financial Reporting Standards issued under the Accounting Profession Act B.E. 2547.

The financial statements have been prepared under the historical cost convention, except as disclosed otherwise in the accounting policies.

The preparation of financial statements in conformity with Thai Generally Accepted Accounting Principles requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

An English version of the financial statements has been prepared from the statutory financial statements that are in the Thai language. In the event of a conflict or a difference in interpretation between the two languages, the Thai language statutory financial statements shall prevail.

2 Accounting policies (Cont'd)

2.2 Revised accounting standards, revised financial reporting standards, and related interpretations

2.2.1 New/revised accounting standards which are effective on 1 January 2013 and are relevant and have an impact to the Company are:

TAS 12	Income Taxes
TAS 21 (Revised 2009)	The Effects of Changes in Foreign Exchange Rates
TFRS 8	Operating Segments

TAS 12 requires tax expenses to be recognised for current and deferred tax. New accounting policy of income taxes and the significant impact to the Company are described in Note 2.3.

TAS 21 (Revised 2009) requires the Company to determine the functional currency which is the currency of the primary economic environment in which the entity operates. The Company assessed and concluded that Thai Baht is the Company's functional currency. As a consequence, applying TAS 21 (Revised 2009) has no impact to assets, liabilities and retained earnings. New accounting policy is described in Note 2.4.

TFRS 8 requires the operating segment to be described in the same manner as internal reporting used by the chief operating decision-maker. New accounting policy is described in Note 2.5. The impact to the Company in applying TFRS 8 is only on a disclosure.

2 Accounting policies (Cont'd)

2.2 Revised accounting standards, revised financial reporting standards, and related interpretations (Cont'd)

2.2.2 Revised accounting standards, revised financial reporting standards, and related interpretations that are not yet effective and have not been early adopted by the Company:

a) Revised accounting standards and revised financial reporting standards effective for the periods beginning on or after 1 January 2014

TAS 1 (Revised 2012)	Presentation of Financial Statements
TAS 7 (Revised 2012)	Statement of Cash Flows
TAS 12 (Revised 2012)	Income Taxes
TAS 17 (Revised 2012)	Leases
TAS 18 (Revised 2012)	Revenue
TAS 19 (Revised 2012)	Employee Benefits
TAS 21 (Revised 2012)	The Effects of Changes in Foreign Exchange Rates
TAS 24 (Revised 2012)	Related Party Disclosures
TAS 28 (Revised 2012)	Investments in Associates
TAS 31 (Revised 2012)	Interest in Joint Ventures
TAS 34 (Revised 2012)	Interim Financial Reporting
TAS 36 (Revised 2012)	Impairment of Assets
TAS 38 (Revised 2012)	Intangible Assets
TFRS 2 (Revised 2012)	Share-based Payment
TFRS 3 (Revised 2012)	Business Combinations
TFRS 5 (Revised 2012)	Non-current Assets Held for Sale and Discontinued Operations
TFRS 8 (Revised 2012)	Operating Segments

The Company's management has assessed and determined that the revised accounting standards and revised financial reporting standards will not significantly impact the financial statements being presented.

2 Accounting policies (Cont'd)

2.2 Revised accounting standards, revised financial reporting standards, and related interpretations (Cont'd)

2.2.2 Revised accounting standards, revised financial reporting standards, and related interpretations that are not yet effective and have not been early adopted by the Company: (Cont'd)

b) Interpretations of Thai Financial Reporting Interpretations Committee (“TFRIC”) and Thai Standard Interpretations Committee (“TSIC”) effective for the periods beginning on or after 1 January 2014

TFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
TFRIC 4	Determining whether an Arrangement Contains a Lease
TFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
TFRIC 7	Applying the Restatement Approach under TAS 29 Financial Reporting in Hyperinflationary Economies
TFRIC 10	Interim Financial Reporting and Impairment
TFRIC 12	Service Concession Arrangements
TFRIC 13	Customer Loyalty Programmes
TFRIC 17	Distributions of Non-cash Assets to Owners
TFRIC 18	Transfers of Assets from Customers
TSIC 15	Operating Leases - Incentives
TSIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
TSIC 29	Service Concession Arrangements: Disclosure
TSIC 32	Intangible Assets - Website Costs

The Company’s management has assessed and determined that the new interpretations of TFRIC and SIC will not significantly impact the financial statements being presented except the new interpretation as disclosed below:

TFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement, and the consideration received or receivable from the customer is allocated between the components of the arrangement using fair values. The Company’s management is currently assessing the impact of applying this interpretation.

2 Accounting policies (Cont'd)

2.2 Revised accounting standards, revised financial reporting standards, and related interpretations (Cont'd)

2.2.2 Revised accounting standards, revised financial reporting standards, and related interpretations that are not yet effective and have not been early adopted by the Company: (Cont'd)

- c) New accounting standard which is effective for the periods beginning on or after 1 January 2016

TFRS 4

Insurance Contracts

The Company's management has assessed and determined that the new accounting standard will not significantly impact the financial statements being presented.

2.3 Current and deferred income taxes

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

2 Accounting policies (Cont'd)

2.3 Current and deferred income taxes (Cont'd)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

The Company has applied Thai Accounting Standard 12, which dealt with accounting for current and deferred income taxes since 1 January 2013 by retrospective adjusting. The effects of the adoption of the above standard were as follows:

	<u>Baht</u>
Statement of financial position	
Deferred tax assets as of 1 January 2012 increased	170,838,613
Deferred tax liabilities, net as of 31 December 2012 increased	27,816,517
Deficits as of 1 January 2012 decreased	170,838,613
Retained earnings as of 31 December 2012 decreased	27,816,517
Statement of comprehensive income for the year	
Income tax expense for the year ended 31 December 2012 increased	199,506,087
Basic earnings per share for the year ended 31 December 2012 decreased	4.74

2 Accounting policies (Cont'd)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Thai Baht, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the statement of comprehensive income.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit and loss in the statement of comprehensive income, any exchange component of that gain or loss is recognised in profit and loss in the statement of comprehensive income.

2.5 Segment reporting

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

2.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from the date of acquisition and are not pledged as security.

2 Accounting policies (Cont'd)

2.7 Investments in private funds

Investments in private funds comprise fixed deposits, government bonds and debt instruments which are classified as trading investments. The classification is dependent on the purpose for which the investments were acquired. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Trading investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are included in current assets.

The investments are initially recognised at cost, which is equal to the fair value of consideration paid plus transaction cost.

Trading investments are subsequently measured at fair value. The fair value of investments is based on quoted bid price at the close of business on the statement of financial position date by reference to the Stock Exchange of Thailand and the Thai Bond Dealing Centre. The unrealised gains and losses of trading investments are recognised as profit or loss in the statement of comprehensive income.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss in the statement of comprehensive income. When disposing of part of the Company's holding of a particular investment in debt securities, the carrying amount of the disposed part is determined by the weighted average carrying amount of the total holding of the investment.

2.8 Trade accounts receivable

Trade accounts receivable are carried at the original invoice amount and subsequently measured at the remaining amount less any allowance for doubtful receivables based on a review of all outstanding amounts at the end of year. The amount of the allowance is the difference between the carrying amount of the receivable and the amount expected to be collectible. Bad debts are written-off during the year in which they are identified and recognised in statement of comprehensive income within administrative expenses.

2 Accounting policies (Cont'd)

2.9 Inventories

Inventories comprise food, beverage, merchandise, and consumables.

Food, beverage and merchandise are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out method. The cost of purchase comprises both the purchase price and costs directly attributable to the acquisition of the inventories such as import duties and transportation charges, less all attributable discounts, allowances or rebates.

Consumables used internally for aircraft repairs and maintenance are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimate of the selling price in the ordinary course of business, less estimated cost necessary to make the sale. Allowance is made, where necessary, for obsolete, slow moving or defective inventories.

2.10 Investments

Investments are classified into the following two categories: (1) held-to-maturity investments; and (2) general investments. The classification is dependent on the purpose for which the investments were acquired. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

1. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the statement of financial position date which are classified as current assets.
2. Investments in non-marketable equity securities are classified as general investments.

All categories of investment are initially recognised at cost, which is equal to the fair value of consideration paid plus transaction cost.

Held-to-maturity investments are carried at amortised cost using the effective yield method less impairment loss.

General investments are carried at cost less impairment loss.

2 Accounting policies (Cont'd)

2.10 Investments (Cont'd)

A test for impairment is carried out when there is a factor indicating that an investment might be impaired. If the carrying value of the investment is higher than its recoverable amount, impairment loss is charged to the statement of comprehensive income.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss. When disposing of part of the Company's holding of a particular investment in debt or equity securities, the carrying amount of the disposed part is determined by the weighted average carrying amount of the total holding of the investment.

2.11 Aircraft, leasehold improvements and equipment

Aircraft, leasehold improvements and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line basis to write-off the cost of each asset, to its residual value over the estimated useful life as follows:

Aircraft	5 - 25 years
Aircraft spare parts	10 years
Leasehold improvements	5 years
Computers	5 years
Furniture, fixtures and office equipment	5 years
Operating equipment	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in statement of comprehensive income.

2 Accounting policies (Cont'd)

2.12 Intangible assets

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years on the straight-line basis.

2.13 Leases - where the Company is the lessee

Leases of assets which substantially transfer all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated to the principal and to the finance charges so as to achieve a constant rate on the finance balance outstanding. The outstanding rental obligations, net of finance charges, are included in finance lease liabilities. The interest element of the finance cost is charged to statement of comprehensive income over the lease period. The assets acquired under finance lease is depreciated over the useful life of the asset.

Leases not transferring a significant portion of the risks and rewards of ownership to the lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2 Accounting policies (Cont'd)

2.14 Employee benefits

2.14.1 Provident fund

The Company operates a provident fund that is a defined contribution plan. The fund assets are held in a separate trust fund and are managed by an external fund manager. The provident fund is funded by payments from employees and by the Company. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the prior and current periods. The Company's contributions to the provident fund are charged to statement of comprehensive income in the year to which they relate.

2.14.2 Retirement benefits

The retirement benefit is a defined benefit plan that an employee will receive on retirement according to Thai Labour Law depending on age and years of service.

The liability of retirement benefit is recognised in the statement of financial position using the present value of the obligation at the statement of financial position date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The retirement benefit is calculated by an independent actuary using the projected unit credit method. The present value of the benefit obligation is determined by discounting the estimated future cash outflows using interest rates of referred government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related retirement liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

2 Accounting policies (Cont'd)

2.15 Share-based payment

The Company operates a cash-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the parent Company. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- including any market performance conditions; and
- excluding the impact of any service and non-market performance vesting conditions (remaining an employee of the entity over a specified time period)

Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Company revises its estimates of the number of shares that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in statement of comprehensive income.

2.16 Provisions

Provisions, which exclude the provision relating to employee benefits, are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain.

2.17 Share capital

Ordinary shares are classified as equity.

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

2 Accounting policies (Cont'd)

2.18 Revenue recognition

Passenger revenue and other related services such as baggage handling fee, assigned seat revenue and cancellation and documentation revenue are recognised upon the rendering of services. The value of seats sold for which services have not been rendered is included in deferred revenues.

Revenue from sales comprises receivable for the sale of goods net of output tax, rebates and discounts. Revenue from sales of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

Other income is recognised on an accrual basis.

3 Financial risk management

3.1 Financial risk factors

The Company's activities expose them to a variety of financial risks, including the effects of changes in fuel price and foreign currency exchange rates. The Company's overall risk management programme focuses on the volatility of financial markets and seeks to minimise potential adverse effects on the financial performance. The Company does not have policies to use derivative financial instruments for trading or speculative purpose.

Fuel price risk

The Company is exposed to the fluctuation of fuel price. To manage the risk of fuel price fluctuation, AirAsia Berhad, a related party, is carried out the risk management on behalf of the Company (Note 3.2).

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

Foreign exchange risk

Foreign currency assets mainly represent deposits at banks, other deposits and amounts due from related parties. Foreign currency liabilities mainly represent trade accounts payable, amounts due to related parties and finance lease liabilities.

The Company is exposed to foreign exchange risk arising from currency exposures mainly in respect of US Dollars. The Company has a natural hedge to the extent that payments for foreign currency payables are matched against receivables denominated in the same foreign currency. However, the Company uses forward foreign exchange contract to hedge its exposure to foreign currency risk for fixed deposits (Note 3.2).

Interest rate risk

The Company's interest rate risk arises from finance lease liabilities and amounts due to related parties. Finance lease liabilities issued at variable rates and amounts due to related parties issued at fixed rate. Management considers that interest rate risk is not significant. However, all interest rate derivative transactions, which may be incurred, are subject to approval by the Board of Directors before execution.

Credit risk

Most of the Company's income, being passenger revenue, is normally paid by clients in advance. The credit risk incurred from amounts due from related parties is low. Management is therefore of the opinion that credit risk is not significant. The Company has not entered into any derivative contracts relating to credit risk. Cash transactions are limited to high credit quality financial institutions.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Company Treasury aims at maintaining flexibility in funding by keeping credit lines available.

3 Financial risk management (Cont'd)

3.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments, which the Company used to manage risk, comprise fuel price swap agreements and forward foreign exchange contract.

Fuel price swap agreements

AirAsia Berhad, a related party, has entered into fuel price swap agreements with third parties which protect the Company from the risk of movements in fuel price. The Company has entered into the agreement with AirAsia Berhad under the term of the agreement that gains or losses on fuel price swap agreements are allocated to the Company based on proportion of fuel consumption on a monthly basis. The Company recorded these transactions in statement of comprehensive income as a component of operating costs when they incur.

Forward foreign exchange contracts

The Company entered into forward foreign exchange contracts with a local financial institution in order to hedge the foreign exchange risk relating to fixed deposits. As at 31 December 2013, the outstanding contracts due for the settlement date are 10 March 2014 and 30 June 2014 (As at 31 December 2012: 7 March 2013) are as follows:

	2013	2012
	Baht	Baht
The amount to be received		
US Dollars 15.16 million at rate Baht 31.54 per US Dollar 1	-	478,047,477
US Dollars 15.14 million at rate Baht 32.49 per US Dollar 1	491,715,277	-
US Dollars 20.23 million at rate Baht 32.90 per US Dollar 1	665,694,448	-

3 Financial risk management (Cont'd)

3.3 Fair value estimation

Fair values of financial assets and liabilities are approximate their carrying amounts because their periods of maturities are short, therefore, there are no significant risk that would impact the Company's future cash flows.

Fuel price swap agreements

The net fair value of fuel price swap agreements at the statement of financial position date is as follows:

	2013	2012
	US Dollars	US Dollars
Favourable fuel price swap agreements	309,928	-

There was no outstanding fuel price swap agreement as at 31 December 2012.

Forward foreign exchange contracts

The net fair value of forward foreign exchange contracts at the statement of financial position date is as follows:

	2013	2012
	Baht	Baht
Favourable (Unfavourable) forward foreign exchange contracts	(9,893,762)	11,966,622

The fair value of the forward foreign exchange contract has been calculated (using rates quoted by the counterparty to the contract) as if the contract was terminated at the statements of financial position date.

4 Critical accounting estimates, assumptions, and judgements

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

Aircraft maintenance under operating leases

The Company has a commitment to maintain aircraft under operating lease agreements, a provision is made throughout the lease term for the rectification obligations contained within the lease agreements. The provision is based on estimated future repair and maintenance costs of major airframe, certain engine maintenance checks and estimated one-off costs incurred at the end of the lease by charging to statement of comprehensive income according to the number of flying hours in each year.

Estimated useful lives and residual values of aircraft frames and engines

The Company reviews annually the estimated useful lives and residual values of aircraft airframes and engines based on key factors concerned such as business plans and strategies, expected level of usage, future technological developments and market prices. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives and residual values of aircraft airframes and engines as disclosed in Note 2.11, would increase the recorded depreciation charge and decrease the carrying amount of aircraft.

5 Capital risk management

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

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

6 Segment information

Financial information by business segments

	2013		Total Baht
	Scheduled flight operations Baht	Charter flight operations Baht	
Revenues	22,514,025,294	971,017,242	23,485,042,536
Profit from operation	1,816,133,850	28,734,849	1,844,868,699
Net gain on exchange rates			258,149,650
Other income			669,876,115
Finance costs			(170,971,996)
Profit before income tax expense			2,601,922,468
Income tax expense			(654,253,760)
Net profit for the year			<u>1,947,668,708</u>
Total assets			21,107,869,636

	2012		Total Baht
	Scheduled flight operations Baht	Charter flight operations Baht	
Revenues	18,688,383,639	660,546,205	19,348,929,844
Profit from operation	1,548,417,220	84,681,755	1,633,098,975
Net gain on exchange rates			68,419,360
Other income			450,033,294
Finance costs			(20,379,964)
Profit before income tax expense			2,131,171,664
Income tax expense			(519,810,188)
Net profit for the year			<u>1,611,361,476</u>
Total assets			10,780,676,927

6 Segment information (Cont'd)

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

The operations of the Company's reporting segments are described as follows:

- Scheduled flight operations: The Company provides passenger air transportation services to routine destinations based on scheduled flights. The Company sells tickets through its distribution channels such as website, sale counters and travel agents etc.
- Charter flight operations: The Company provides passenger air transportation services to non-routine destinations. Flights are operated when there is a hiring from customers who normally are tourist agency companies.

Performance of each operating segment is measured by profit or loss from operation which is using the same basis that the Company measures its profit or loss from operation in the financial statements. Net gain on exchange rates, other income, finance costs and income tax expense are not allocated to each reporting segment.

The Company's total assets are joint assets that are used among segments. Hence, they are not allocated to each reporting segment.

7 Cash and cash equivalents

	2013	2012
	Baht	Baht
Cash on hand	30,199,508	12,419,294
Deposits held at call with banks	1,654,769,913	2,335,368,231
Short-term bank deposits and bill of exchange with maturity of three months or less	<u>271,585,000</u>	<u>1,500,000,000</u>
Total cash and cash equivalents	<u>1,956,554,421</u>	<u>3,847,787,525</u>

The interest rate of deposits held at call with banks was 1.24% per annum (2012: 0.51% per annum).

As at 31 December 2013, interest rate of short-term bank deposits and bill of exchange with maturity of three months or less was 4.25% - 5.00% per annum (2012: 2.75% per annum).

8 Short-term investments

	2013	2012
	Baht	Baht
Fixed deposits and bill of exchange	<u>3,448,628,170</u>	<u>2,295,900,960</u>

The average interest rate of fixed deposits and bill of exchange was 2.00% - 3.50% per annum (2012: 2.75% - 4.00% per annum).

9 Investments in private funds

During the year, the Company established private funds and engaged two local independent asset management companies to manage cash balance of the Company. As at 31 December 2013, the Company had securities of investments in private funds as follows:

	Fair value
	Baht
Fixed deposits	214,971,212
Government bonds	147,311,470
Debt instruments	<u>670,268,500</u>
Total investments in private funds	<u>1,032,551,182</u>

The movement of investments in private funds is as follows:

	Baht
For the year ended 31 December 2013	
Opening net book amount	-
Additions	2,398,424,325
Disposals	(1,398,424,325)
Fair value adjustment	<u>32,551,182</u>
Closing net book amount	<u>1,032,551,182</u>

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10 Trade and other receivables, net

	2013	2012
	Baht	Baht
Trade accounts receivable	317,179,582	264,022,927
<u>Less</u> Allowance for doubtful account	<u>(2,220,250)</u>	<u>-</u>
Trade accounts receivable, net	314,959,332	264,022,927
Accrued income	392,443,008	95,410,129
Other accounts receivable	16,102,346	19,344,409
Total trade and other receivables, net	<u>723,504,686</u>	<u>378,777,465</u>

Outstanding trade accounts receivable can be analysed by age as follows:

	2013	2012
	Baht	Baht
Up to 3 months	269,321,178	227,256,126
3 - 6 months	3,902,087	6,627,750
6 - 12 months	34,573,329	16,442,335
Over 12 months	9,382,988	13,696,716
<u>Less</u> Allowance for doubtful account	<u>(2,220,250)</u>	<u>-</u>
Total trade accounts receivable, net	<u>314,959,332</u>	<u>264,022,927</u>

11 Long-term investments

	2013	2012
	Baht	Baht
Opening book amount	8,769,300	6,929,500
Additions	1,301,779,300	1,839,800
Closing book amount	<u>1,310,548,600</u>	<u>8,769,300</u>

As at 31 December 2013, long-term investments comprise:

	Held to maturity investment Baht	General investment Baht	Total Baht
Fixed deposits	1,301,595,000	-	1,301,595,000
Equity securities	-	8,953,600	8,953,600
Total long-term investments	<u>1,301,595,000</u>	<u>8,953,600</u>	<u>1,310,548,600</u>

As at 31 December 2013, maturity of fixed deposits is as follows:

	Mature within 2 - 5 years Baht
Held-to-maturity investment	<u>1,301,595,000</u>

The average interest rate of fixed deposits was 3.50% - 4.13% per annum (2012: nil).

General investment of the Company is the investment in ordinary shares of Aeronautical Radio of Thailand Limited.

