

THAI AIRASIA COMPANY LIMITED

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2016

Independent Auditor's Report

To the Shareholders and the Board of Directors of Thai AirAsia Company Limited

My opinion

In my opinion, the financial statements of Thai AirAsia Company Limited (the Company) present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with Thai Financial Reporting Standards (TFRSs).

What I have audited

I have audited the accompanying financial statements of the Company, which comprise the statements of financial position as at 31 December 2016, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for opinion

I conducted my audit in accordance with Thai Standards on Auditing (TSAs). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Company in accordance with the Federation of Accounting Professions under the Royal Patronage of his Majesty the King's Code of Ethics for Professional Accountants together with the ethical requirements that are relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

My audit approach - overview



Materiality

Overall materiality: Baht 161 million which represents 5% of Group's profit before tax.

The overall materiality is determined from profit before tax in Thai Baht which is the functional currency as described in the accounting policy in note 2.3 (a).

Audit scope

I conduct with audit work of the Company which engages the operation of a low-fare airline business.

Materiality

The scope of my audit was influenced by my application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on my professional judgement, I determined certain quantitative thresholds for materiality for the financial statements as set out in the table below. These, together with qualitative considerations, helped me to determine the scope of my audit and the nature, timing and extent of my audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Baht 161 million
How I determined it	5% of profit before tax
Rationale for the materiality benchmark applied	I chose profit before tax as the critical measure because, in my view, it is the measure against which the performance of the Company is most commonly assessed. The 5% benchmark is a generally accepted auditing practice and there were no significant unusual elements that merited adjustments to this benchmark.

I agreed with the management that I would report to them misstatements identified during my audit.

How I tailored my audit scope

I tailored the scope of my audit in order to perform sufficient work to enable me to provide an opinion on the financial statements, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Responsibilities of the management for the financial statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with TFRSs, and for such internal control as the management is responsible determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The management is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with TSAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

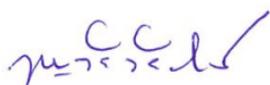
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting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

I communicate with the management's regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

From the matters communicated with the audit committee, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers ABAS Ltd.



Chanchai Chaiprasit
Certified Public Accountant (Thailand) No. 3760
Bangkok
24 February 2017

Thai AirAsia Company Limited
Statement of Financial Position
As at 31 December 2016

	Notes	2016 Baht	2015 Baht
Assets			
Current assets			
Cash and cash equivalents	7	4,549,226,048	6,071,376,910
Cash at financial institutions pledged as security		1,636,470	358,741,649
Short-term investments	8	2,069,763,643	1,109,230,126
Trade and other receivables, net	9	445,133,586	439,190,726
Amounts due from related parties	25.4	804,788,351	326,208,917
Inventories		118,176,358	92,596,351
Prepaid expenses		322,162,559	314,770,946
Other current assets		332,709,413	61,720,089
Total current assets		8,643,596,428	8,773,835,714
Non-current assets			
Cash at financial institutions pledged as security		-	6,441,435
Long-term investments	10	10,389,500	11,832,300
Aircraft maintenance reserves	25.5	2,665,543,653	1,066,380,311
Aircraft, leasehold improvements and equipments, net	11	20,363,103,399	18,135,081,588
Intangible assets, net	12	15,463,357	12,194,785
Other non-current assets	13	1,040,698,183	1,001,821,169
Total non-current assets		24,095,198,092	20,233,751,588
Total assets		32,738,794,520	29,007,587,302

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 2016

	Notes	2016 Baht	2015 Baht
Liabilities and equity			
Current liabilities			
Trade accounts payable		488,960,425	335,807,004
Other accounts payable		340,263,493	194,558,325
Amounts due to related parties	25.7	437,468,985	917,878,501
Deferred revenues		4,238,145,612	4,030,229,013
Accrued expenses		1,888,034,299	1,515,029,527
Current portion of long-term borrowings	14	559,746,132	-
Current portion of finance lease liabilities	15	1,231,760,940	1,261,443,422
Other current liabilities		38,961,588	39,235,045
Total current liabilities		9,223,341,474	8,294,180,837
Non-current liabilities			
Long-term borrowings	14	1,273,007,321	-
Finance lease liabilities	15	12,390,703,979	12,775,395,312
Deferred tax liabilities, net	16	307,430,571	511,948,077
Employee benefit obligations	18	254,950,594	168,945,620
Total non-current liabilities		14,226,092,465	13,456,289,009
Total liabilities		23,449,433,939	21,750,469,846

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 2016

	Notes	2016 Baht	2015 Baht
Liabilities and equity (Cont'd)			
Equity			
Share capital			
Authorised share capital			
Ordinary shares, 43,555,560 shares of par Baht 10 each		435,555,600	435,555,600
Issued and paid-up share capital			
Ordinary shares, 43,555,560 shares of paid-up Baht 10 each	19	435,555,600	435,555,600
Premium on share capital	19	2,628,786,469	2,628,786,469
Retained earnings			
Appropriated - legal reserve	21	43,555,560	43,555,560
Unappropriated		6,181,462,952	4,149,219,827
Total equity		9,289,360,581	7,257,117,456
Total liabilities and equity		32,738,794,520	29,007,587,302

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 2016

	Notes	2016 Baht	2015 Baht
Revenues from sales and services	22	32,400,568,631	29,507,305,473
Cost of sales of goods and services		<u>(26,671,936,891)</u>	<u>(25,298,814,478)</u>
Gross profit		5,728,631,740	4,208,490,995
Other income		<u>729,034,190</u>	<u>955,298,789</u>
Profit before expenses		6,457,665,930	5,163,789,784
Selling expenses		(1,507,500,692)	(1,493,977,009)
Administrative expenses		(1,125,484,840)	(862,664,875)
Net loss on exchange rates		<u>(79,505,701)</u>	<u>(204,759,134)</u>
Profit before finance costs and income taxes		3,745,174,697	2,602,388,766
Finance costs		<u>(520,855,609)</u>	<u>(457,068,503)</u>
Profit before income taxes		3,224,319,088	2,145,320,263
Income taxes	17	<u>183,894,760</u>	<u>(154,300,658)</u>
Net profit for the year		<u>3,408,213,848</u>	<u>1,991,019,605</u>
Other comprehensive income (expense):			
Remeasurements of employee benefit obligations	18	(43,074,344)	29,175,913
Income taxes relating to components of other comprehensive income (expense) for the year	17	<u>8,614,869</u>	<u>(5,835,183)</u>
Other comprehensive income (expense) for the year		<u>(34,459,475)</u>	<u>23,340,730</u>
Total comprehensive income for the year		<u><u>3,373,754,373</u></u>	<u><u>2,014,360,335</u></u>
Earnings per share			
Basic earnings per share	24	<u><u>78.25</u></u>	<u><u>45.71</u></u>

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

Thai AirAsia Company Limited
Statement of Changes in Equity
For the year ended 31 December 2016

	Notes	Issued and paid-up share capital Baht	Premium on share capital Baht	Retained earnings		Total Baht
				Appropriated - legal reserve Baht	Unappropriated Baht	
Opening balance as at 1 January 2015		435,555,600	2,628,786,469	-	3,136,637,372	6,200,979,441
Total comprehensive income for the year		-	-	-	2,014,360,335	2,014,360,335
Dividends paid	20	-	-	-	(958,222,320)	(958,222,320)
Legal reserve	21	-	-	43,555,560	(43,555,560)	-
Closing balance as at 31 December 2015		<u>435,555,600</u>	<u>2,628,786,469</u>	<u>43,555,560</u>	<u>4,149,219,827</u>	<u>7,257,117,456</u>
Opening balance as at 1 January 2016		435,555,600	2,628,786,469	43,555,560	4,149,219,827	7,257,117,456
Total comprehensive income for the year		-	-	-	3,373,754,373	3,373,754,373
Dividends paid	20	-	-	-	(1,341,511,248)	(1,341,511,248)
Closing balance as at 31 December 2016		<u>435,555,600</u>	<u>2,628,786,469</u>	<u>43,555,560</u>	<u>6,181,462,952</u>	<u>9,289,360,581</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 2016

	Notes	2016 Baht	2015 Baht
Cash flows from operating activities			
Profit before income taxes		3,224,319,088	2,145,320,263
Adjustments for:			
Bad debt		216,569	-
Depreciation	11	1,158,594,123	1,102,316,273
Amortisation	12	4,822,886	4,406,581
Amortisation of prepaid expenses		115,753,956	399,509,087
(Gain) loss on disposals and write-offs of leasehold improvements and equipment		(1,681,741)	1,508,043
Employee benefit expenses	18	44,530,630	42,178,576
Net (gain) loss on exchange rates		(112,923,297)	682,138,882
Net gain on fair value adjustment in investments in private funds		-	(27,192)
Finance costs		520,855,609	457,068,503
Interest income		(76,037,201)	(118,607,548)
		<u>4,878,450,622</u>	<u>4,715,811,468</u>
Changes in operating assets and liabilities:			
- Trade and other receivables		(6,653,811)	98,791,358
- Amounts due from related parties		(476,056,234)	(258,718,313)
- Inventories		(25,580,007)	(16,993,193)
- Prepaid expenses		(123,145,569)	(444,258,190)
- Value added tax receivable		-	86,822,474
- Other current assets		(265,175,928)	(16,426,246)
- Other non-current assets		(38,877,014)	(189,143,586)
- Trade accounts payable		153,153,421	160,636,171
- Other accounts payable		145,705,168	2,402,933
- Amounts due to related parties		(480,409,516)	447,153,960
- Deferred revenues		207,916,599	(598,998,560)
- Accrued expenses		336,473,394	82,395,853
- Other current liabilities		(273,457)	(22,091,863)
		<u>4,305,527,668</u>	<u>4,047,384,266</u>
Cash generated from operating activities		4,305,527,668	4,047,384,266
Income taxes paid		(17,821,273)	(5,856,186)
Interest received		50,219,473	31,786,534
Employee benefit paid	18	(1,600,000)	(1,604,968)
		<u>4,336,325,868</u>	<u>4,071,709,646</u>
Net cash generated from operating activities		<u>4,336,325,868</u>	<u>4,071,709,646</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 2016

	Notes	2016 Baht	2015 Baht
Cash flows from investing activities			
Decrease (increase) in cash at financial institutions pledged as security		351,643,081	(185,297,243)
Decrease (increase) in short-term investments		(943,880,413)	413,055,602
Decrease in investments in private funds		-	10,507,428
Decrease in long-term investments	10	1,442,800	1,295,061,800
Payment for aircraft maintenance reserves		(1,599,163,342)	(1,066,380,311)
Proceeds from disposals of leasehold improvements and equipment		153,539,765	1,899,130
Payments for aircraft, leasehold improvements and equipment		(766,710,010)	(814,850,142)
Payments for intangible assets	12	(8,091,458)	(5,141,430)
Interest received		25,633,799	167,569,704
Net cash used in investing activities		<u>(2,785,585,778)</u>	<u>(183,575,462)</u>
Cash flows from financing activities			
Proceeds from long-term borrowings		2,000,000,000	-
Payment for front end fee		(2,400,000)	-
Payments for early termination of finance leases		(1,931,831,266)	-
Repayments of finance leases		(1,142,796,723)	(1,059,103,336)
Repayments of long-term borrowings		(165,066,547)	-
Interest paid		(529,980,060)	(555,610,442)
Dividends paid	20	(1,341,511,248)	(958,222,320)
Net cash used in financing activities		<u>(3,113,585,844)</u>	<u>(2,572,936,098)</u>
Net increase (decrease) in cash and cash equivalents		(1,562,845,754)	1,315,198,086
Cash and cash equivalents at the beginning of the year		6,071,376,910	4,783,432,668
Exchange gain (loss) on cash and cash equivalents		40,694,892	(27,253,844)
Cash and cash equivalents at the end of the year		<u>4,549,226,048</u>	<u>6,071,376,910</u>

Non-cash transactions

Significant non-cash transactions during the years ended 31 December 2016 and 2015 are as follows:

Purchases of aircraft spare parts which have not been paid	55,153,690	138,205,808
Purchases of aircraft and aircraft engine under finance lease agreements	2,716,610,257	2,267,749,370

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 24 February 2017.

2 Accounting policies

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, and the financial reporting requirements of the Securities and Exchange Commission under the Securities and Exchange Act.

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.

2.2 Revised financial reporting standards

The Company has applied the revised financial reporting standards which are effective on 1 January 2016 and relevant to the Company. The application of those financial reporting standards does not have significant impact to the Company.

The Company has not yet early adopted the revised financial reporting standards which are effective on 1 January 2017.

2 Accounting policies (Cont'd)

2.3 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.

Where 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, where 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.

2.4 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.

2.5 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.

2.6 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.

2.7 Inventories

Inventories comprise food, beverages, merchandise, and consumables.

Food, beverages 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 by the weighted average basis. Cost 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 Accounting policies (Cont'd)

2.8 Investments

Investments are classified into the following two categories: (1) held-to-maturity investments; or (2) general investments. The classification depends 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.

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

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.

2.9 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 down the cost of each asset, to its residual value over the estimated useful life as follows:

Aircraft and aircraft engines	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)

2.10 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.

2.11 Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective yield method.

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting date.

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

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

2.12 Leases - where the Company is a 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)

2.13 Current and deferred income taxes

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

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

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.

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.

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 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.

2.16 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.

2.17 Revenue recognition

Passenger service revenues 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.

Revenues from sales comprises receivable for the sale of goods net of output tax, rebates and discounts. Revenues 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 into account of the principal outstanding and the effective rate over the period to maturity if such income will accrue to the Company.

Other income is recognised on an accrual basis.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Company's activities are exposed 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 payments to be settled in foreign currencies (Note 3.2).

Interest rate risk

The Company's interest rate risk arises from finance lease liabilities. Finance lease liabilities issued at variable rates. The Company uses interest rate swap agreement as a risk management instrument to manage on the fluctuation of future interest rate of finance lease liabilities (Note 3.2).

Credit risk

Most of the Company's income, being revenues from passenger services, 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 to maintain flexibility in funding by keeping credit lines available.

3.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments that the Company uses to manage risks comprise fuel price swap agreements, forward foreign exchange contracts, interest rate swap agreements and cross currency swap agreement.

Fuel price swap agreements

AirAsia Berhad, a related party, has entered into fuel price swap agreements with third parties to protect the Company from the risk of movements in fuel prices. 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 records 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 local financial institution in order to hedge the foreign exchange risk relating to payments to be settled in foreign currencies. As at 31 December 2016, the outstanding contract due for settlement on 9 May 2017 (as at 31 December 2015: 24 February 2016) is as follows:

	2016	2015
	Baht	Baht
The amount to be received		
US Dollars 9.23 million at rate		
Baht 35.76 per US Dollar 1	-	330,210,602
US Dollars 20 million at rate		
Baht 35.85 per US Dollar 1	717,040,848	-

3 Financial risk management (Cont'd)

3.2 Accounting for derivative financial instruments and hedging activities (Cont'd)

Interest rate swap agreements

The Company entered into interest rate swap agreements in order to use it as a risk management instrument to manage on the fluctuation of future interest rate of financial lease liabilities by changing from floating interest rate to fixed interest rate. Under the interest rate swap agreements, the Company agreed to exchange the differences between fixed rates and floating rates which are calculated by reference to the agreed notional principal amounts. As at 31 December 2016, the notional principal from the agreements amounted to Baht 3,095.84 million and USD 129.14 million (2015: Baht 2,525 million and USD 113 million), the fixed interest rates were 2.24% - 5.09% (2015: 2.24% - 5.09%) and the floating interest rates were THBFX1M plus 1.98% - 2.20%, THBFX6M plus 2.25% and USD LIBOR3M plus 0.56% - 3.00% (2015: THBFX1M plus 1.98% - 2.20%, THBFX6M plus 2.25% and USD LIBOR3M plus 0.56% - 0.83%).

Interest rate swap agreements are due for exchange of the differences in interest amount every month.

Cross currency swap agreement

The Company entered into cross currency swap agreement with local financial institution in order to hedge both foreign exchange and interest rate risks relating to payments to be settled in foreign currencies. As at 31 December 2016, the outstanding agreement due for settlement on 10 November 2025 (2015: 10 November 2025). The notional principal from the agreement amounted to USD 26.65 million (2015: USD 29 million), the fixed interest rate was 2.64% (2015: 2.64%) and the floating interest rate was USD LIBOR3M plus 0.70% (2015: USD LIBOR3M plus 0.70%).

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Company's financial assets and liabilities that were measured at fair value at 31 December 2016.

	Level 2 US Dollars	Level 2 Baht
Assets		
Derivatives used for hedging		
Fuel price swap agreements	25,545,608	-
Interest rate swap agreements	-	62,702,735
Cross currency swap agreement	-	41,002,065
Total assets	25,545,608	103,704,800
	Level 2 US Dollars	Level 2 Baht
Liabilities		
Derivatives used for hedging		
Foreign exchange forward contracts	-	3,990,101
Total liabilities	-	3,990,101

There were no transfers between levels during the year.

Derivatives instruments are measured at their fair values which were quoted prices of the financial institutions with which the Company entered into derivative instrument agreements. The fair values were based on observable information, such as interest rates and foreign exchange rates commonly quoted in publicly available sources on the date of the statement of financial position.

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, for which the maintenance cost is made throughout the lease term for the rectification obligations contained within the lease agreements. The cost 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 hours flown each year.

Estimated useful lives and residual values of aircraft frames and engines

The Company annually reviews 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.

5 Capital risk management

The Company's objectives for 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.

In order to obtain the promotional privileges from the Board of Investment, the Company has to maintain minimum capital investment as specified in each certificate.

6 Segment information

Financial information by business segments

	2016		Total Baht
	Scheduled flight operations Baht	Charter flight operations Baht	
Revenues from sales and services	30,437,224,736	1,963,343,895	32,400,568,631
Profit from operation	2,544,437,730	551,208,478	3,095,646,208
Other income			729,034,190
Net loss on exchange rates			(79,505,701)
Finance costs			(520,855,609)
Profit before income taxes			3,224,319,088
Income taxes			183,894,760
Net profit for the year			3,408,213,848
Total assets			32,738,794,520

6 Segment information (Cont'd)

Financial information by business segments (Cont'd)

	2015		Total Baht
	Scheduled flight operations Baht	Charter flight operations Baht	
Revenues from sales and services	27,426,215,857	2,081,089,616	29,507,305,473
Profit from operation	1,318,366,219	533,482,892	1,851,849,111
Other income			955,298,789
Net loss on exchange rates			(204,759,134)
Finance costs			(457,068,503)
Profit before income taxes			2,145,320,263
Income taxes			(154,300,658)
Net profit for the year			<u>1,991,019,605</u>
Total assets			29,007,587,302

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 makes 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 for on scheduled flights. The Company sells tickets through its distribution channels such as website, sale counters and travel agents etc.
- Chartered 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 (loss) on exchange rates, other income, finance costs and income tax 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

	2016 Baht	2015 Baht
Cash on hand	8,755,450	9,678,812
Deposits held at call with banks	4,540,470,598	5,241,543,098
Short-term bank deposits and bills of exchange with maturity of three months or less	-	820,155,000
Total cash and cash equivalents	<u>4,549,226,048</u>	<u>6,071,376,910</u>

The weighted average interest rate of deposits held at call with banks was 0.83% per annum (2015: 0.51% per annum).

8 Short-term investments

	2016 Baht	2015 Baht
Fixed deposits and bills of exchange	2,069,763,643	1,109,230,126

As at 31 December 2016, short term investments comprise fixed deposits of US Dollars 30 million and Baht 1,000 million (2015: US Dollars 9.99 million and Baht 750 million). Fixed deposits have the period of 6-month to 12-month and bear interests at the rates of 1.00% to 1.65% per annum (2015: 0.80% to 2.00% per annum).

9 Trade and other receivables, net

	2016 Baht	2015 Baht
Trade accounts receivable	339,573,128	354,170,114
<u>Less</u> Allowance for doubtful accounts	-	-
Trade accounts receivable, net	339,573,128	354,170,114
Accrued airport fee and incentive income	35,016,553	2,843,204
Accrued income	49,823,994	49,568,722
Other receivable	20,719,911	32,608,686
Total trade and other receivables, net	445,133,586	439,190,726

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

	2016 Baht	2015 Baht
Up to 3 months	311,441,205	340,651,599
3 - 6 months	14,996,214	7,020,344
6 - 12 months	8,894,433	726,806
Over 12 months	4,241,276	5,771,365
Total trade accounts receivable	339,573,128	354,170,114
<u>Less</u> Allowance for doubtful accounts	-	-
Total trade accounts receivable, net	339,573,128	354,170,114

10 Long-term investments

	2016 Baht	2015 Baht
Opening book amount	11,832,300	1,297,809,100
Additions	-	1,163,200
Disposals	(1,442,800)	(1,296,225,000)
Gain on exchange rate	-	9,085,000
Closing book amount	10,389,500	11,832,300

As at 31 December 2016, long-term investments comprise:

	General investment Baht	Total Baht
Equity securities	10,389,500	10,389,500
Total long-term investments	10,389,500	10,389,500

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

11 Aircraft, leasehold improvements and equipment, net

	Leasehold improvements Baht	Computers Baht	Furniture, fixtures and office equipment Baht	Operating equipment Baht	Motor vehicles Baht	Aircraft and aircraft engines Baht	Aircraft spare parts Baht	Assets under installation Baht	Total Baht
At 1 January 2015									
Cost	131,458,119	76,485,304	53,005,959	207,705,446	94,493,131	16,135,911,711	974,667,397	16,602,447	17,690,329,514
<u>Less</u> Accumulated depreciation	(50,221,908)	(50,177,712)	(27,666,502)	(110,886,000)	(73,357,386)	(973,517,115)	(472,116,460)	-	(1,757,943,083)
Net book amount	<u>81,236,211</u>	<u>26,307,592</u>	<u>25,339,457</u>	<u>96,819,446</u>	<u>21,135,745</u>	<u>15,162,394,596</u>	<u>502,550,937</u>	<u>16,602,447</u>	<u>15,932,386,431</u>
For the year ended 31 December 2015									
Opening net book amount	81,236,211	26,307,592	25,339,457	96,819,446	21,135,745	15,162,394,596	502,550,937	16,602,447	15,932,386,431
Additions	5,982,956	22,020,645	5,048,852	42,502,558	353,500	3,076,701,601	127,854,480	28,286,986	3,308,751,578
Disposals, net	(2)	-	(2)	(27)	(3,407,116)	-	(26)	-	(3,407,173)
Transfers	11,171,077	4,062,000	1,478,362	4,510,000	-	-	-	(21,554,414)	(332,975)
Depreciation charges	(24,608,148)	(10,984,878)	(7,848,263)	(31,767,397)	(5,784,814)	(944,341,046)	(76,981,727)	-	(1,102,316,273)
Closing net book amount	<u>73,782,094</u>	<u>41,405,359</u>	<u>24,018,406</u>	<u>112,064,580</u>	<u>12,297,315</u>	<u>17,294,755,151</u>	<u>553,423,664</u>	<u>23,335,019</u>	<u>18,135,081,588</u>
At 31 December 2015									
Cost	148,398,152	102,567,949	59,457,783	253,077,669	76,613,144	19,212,780,615	1,098,540,616	23,335,019	20,974,770,947
<u>Less</u> Accumulated depreciation	(74,616,058)	(61,162,590)	(35,439,377)	(141,013,089)	(64,315,829)	(1,918,025,464)	(545,116,952)	-	(2,839,689,359)
Net book amount	<u>73,782,094</u>	<u>41,405,359</u>	<u>24,018,406</u>	<u>112,064,580</u>	<u>12,297,315</u>	<u>17,294,755,151</u>	<u>553,423,664</u>	<u>23,335,019</u>	<u>18,135,081,588</u>

11 Aircraft, leasehold improvements and equipment, net (Cont'd)

	Leasehold improvements Baht	Computers Baht	Furniture, fixtures and office equipment Baht	Operating equipment Baht	Motor vehicles Baht	Aircraft and aircraft engines Baht	Aircraft spare parts Baht	Assets under installation Baht	Total Baht
For the year ended 31 December 2016									
Opening net book amount	73,782,094	41,405,359	24,018,406	112,064,580	12,297,315	17,294,755,151	553,423,664	23,335,019	18,135,081,588
Additions	7,121,272	14,518,890	3,606,379	16,732,865	17,123,991	3,214,932,435	244,015,173	20,422,953	3,538,473,958
Disposals/Write-offs, net	(1,282)	(10,001,378)	(229,750)	(12,974)	-	-	(127,786,214)	(13,826,426)	(151,858,024)
Transfers/Adjustments	13,556,670	6,991,731	-	7,187,375	-	-	-	(27,735,776)	-
Depreciation charges	(27,993,055)	(13,136,129)	(8,292,237)	(37,195,210)	(5,557,934)	(983,005,520)	(83,414,038)	-	(1,158,594,123)
Closing net book amount	<u>66,465,699</u>	<u>39,778,473</u>	<u>19,102,798</u>	<u>98,776,636</u>	<u>23,863,372</u>	<u>19,526,682,066</u>	<u>586,238,585</u>	<u>2,195,770</u>	<u>20,363,103,399</u>
At 31 December 2016									
Cost	169,074,812	109,902,076	62,830,123	274,655,866	93,737,135	22,427,713,050	961,146,452	2,195,770	24,101,255,284
<u>Less</u> Accumulated depreciation	<u>(102,609,113)</u>	<u>(70,123,603)</u>	<u>(43,727,325)</u>	<u>(175,879,230)</u>	<u>(69,873,763)</u>	<u>(2,901,030,984)</u>	<u>(374,907,867)</u>	-	<u>(3,738,151,885)</u>
Net book amount	<u>66,465,699</u>	<u>39,778,473</u>	<u>19,102,798</u>	<u>98,776,636</u>	<u>23,863,372</u>	<u>19,526,682,066</u>	<u>586,238,585</u>	<u>2,195,770</u>	<u>20,363,103,399</u>

12 Intangible assets, net

	Computer software Baht	Computer software under installation Baht	Total Baht
At 1 January 2015			
Cost	44,890,727	-	44,890,727
<u>Less</u> Accumulated amortisation	(33,430,791)	-	(33,430,791)
Net book amount	<u>11,459,936</u>	-	<u>11,459,936</u>
For the year ended 31 December 2015			
Opening net book amount	11,459,936	-	11,459,936
Additions	3,381,550	1,759,880	5,141,430
Transfers	340,000	(340,000)	-
Amortisation charges	(4,406,581)	-	(4,406,581)
Closing net book amount	<u>10,774,905</u>	<u>1,419,880</u>	<u>12,194,785</u>
At 31 December 2015			
Cost	48,612,277	1,419,880	50,032,157
<u>Less</u> Accumulated amortisation	(37,837,372)	-	(37,837,372)
Net book amount	<u>10,774,905</u>	<u>1,419,880</u>	<u>12,194,785</u>
For the year ended 31 December 2016			
Opening net book amount	10,774,905	1,419,880	12,194,785
Additions	4,781,163	3,310,295	8,091,458
Transfers	3,101,950	(3,101,950)	-
Amortisation charges	(4,822,886)	-	(4,822,886)
Closing net book amount	<u>13,835,132</u>	<u>1,628,225</u>	<u>15,463,357</u>
At 31 December 2016			
Cost	56,495,390	1,628,225	58,123,615
<u>Less</u> Accumulated amortisation	(42,660,258)	-	(42,660,258)
Net book amount	<u>13,835,132</u>	<u>1,628,225</u>	<u>15,463,357</u>

13 Other non-current assets

	Note	2016 Baht	2015 Baht
Aircraft rental deposits - related party	25.6	741,346,452	748,209,343
Aircraft rental deposits - others		90,296,672	-
Airport operation deposits		34,600,000	34,600,000
Fuel price swap deposit	25.6	17,829,400	17,961,650
Rental deposits		49,957,927	42,158,417
Prepaid expenses		-	9,216,373
Other deposits		106,667,732	149,675,386
Total other non-current assets		<u>1,040,698,183</u>	<u>1,001,821,169</u>

14 Borrowings

	2016 Baht	2015 Baht
Current		
Current portion of long-term borrowings - Bank	560,546,132	-
<u>Less</u> Front end fee	(800,000)	-
Total current borrowings	<u>559,746,132</u>	<u>-</u>
Non-current		
Long-term borrowings - Bank	1,274,387,321	-
<u>Less</u> Front end fee	(1,380,000)	-
Total non-current borrowings	<u>1,273,007,321</u>	<u>-</u>
Total borrowings	<u>1,832,753,453</u>	<u>-</u>

For the year ended 31 December 2016, the Company entered into loan agreements with local financial institutions for repayment of the remaining obligations to the existing financial institutions on behalf of the early termination of 2 aircraft finance leases and 2 aircraft engine finance leases. As the result, the Company has lower interest payment and cash flow hedges of future interest payments. The loan agreements mature in 3 years and bear interest at a fixed rate per annum. These borrowings are unsecured and denominated in Thai Baht.

Movements in long-term borrowings for the year ended 31 December 2016 are analysed as follows:

	2016 Baht	2015 Baht
Opening book amount	-	-
Proceed from long-term borrowings	2,000,000,000	-
Front end fee	(2,400,000)	-
Amortisation of front end fee	220,000	-
Payments for long-term borrowings	(165,066,547)	-
Closing book amount	<u>1,832,753,453</u>	<u>-</u>

The interest rate exposure on the borrowings is as follows:

	2016 Baht	2015 Baht
Borrowings:		
- at fixed rates	1,832,753,453	-
- at floating rates	-	-
Total borrowings	<u>1,832,753,453</u>	<u>-</u>

The carrying amounts and fair values of certain long-term borrowings are as follows:

	Carrying amounts		Fair values	
	2016 Baht	2015 Baht	2016 Baht	2015 Baht
Long-term bank borrowings	1,832,753,453	-	1,832,753,453	-
	<u>1,832,753,453</u>	<u>-</u>	<u>1,832,753,453</u>	<u>-</u>

The fair values of non-current portion of long-term borrowings are equal to their carrying amounts.

14 Borrowings (Cont'd)

Maturity of long-term borrowings (excluding finance lease liabilities):

	2016 Baht	2015 Baht
Within 1 year	560,546,132	-
Later than 1 year but not later than 5 years	1,274,387,321	-
Later than 5 years	-	-
<u>Less</u> Front end fee	(2,180,000)	-
	<u>1,832,753,453</u>	<u>-</u>

Credit facilities

As at 31 December 2016, the Company has non-available credit facilities.

15 Finance lease liabilities

Finance lease liabilities - minimum lease payments:

	2016 Baht	2015 Baht
Within 1 year	1,679,361,046	1,709,396,605
Later than 1 year but not later than 5 years	6,717,444,182	6,765,109,949
Later than 5 years	7,703,167,381	8,033,497,105
<u>Less</u> Future finance charges on finance leases	(2,477,507,690)	(2,471,164,925)
	<u>13,622,464,919</u>	<u>14,036,838,734</u>
Finance lease liabilities:		
- Current portion	1,231,760,940	1,261,443,422
- Non-current portion	12,390,703,979	12,775,395,312
	<u>13,622,464,919</u>	<u>14,036,838,734</u>

The present value of finance lease liabilities is as follows:

	2016 Baht	2015 Baht
Within 1 year	1,646,864,776	1,676,545,078
Later than 1 year but not later than 5 years	6,054,315,289	6,104,530,065
Later than 5 years	5,921,284,854	6,255,763,591
	<u>13,622,464,919</u>	<u>14,036,838,734</u>

16 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using the principal tax rate of 20%

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 Baht	2015 Baht
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	1,873,309,667	1,545,401,106
Deferred tax liabilities:		
Deferred tax liabilities to be settled after more than 12 months	<u>(2,180,740,238)</u>	<u>(2,057,349,183)</u>
Deferred tax liabilities, net	<u><u>(307,430,571)</u></u>	<u><u>(511,948,077)</u></u>

The gross movement and the deferred income taxes account is as follows:

	2016 Baht	2015 Baht
At 1 January	(511,948,077)	(351,812,236)
Charged (credited) to profit or loss	195,902,637	(154,300,658)
Charged (credited) to other comprehensive income	<u>8,614,869</u>	<u>(5,835,183)</u>
At 31 December	<u><u>(307,430,571)</u></u>	<u><u>(511,948,077)</u></u>

The movement in deferred tax assets and liabilities during the year is as follows:

	Tax loss Baht	Retirement benefit Baht	Finance lease Baht	Total Baht
Deferred tax assets				
At 1 January 2015	186,660,629	29,326,077	1,133,975,770	1,349,962,476
Charged (credited) to profit or loss	(53,251,658)	9,180,160	245,345,310	201,273,812
Credited to other comprehensive income	-	<u>(5,835,183)</u>	-	<u>(5,835,183)</u>
At 31 December 2015	<u>133,408,971</u>	<u>32,671,054</u>	<u>1,379,321,080</u>	<u>1,545,401,106</u>
At 1 January 2016	133,408,971	32,671,054	1,379,321,080	1,545,401,106
Charged to profit or loss	89,993,345	7,441,400	221,858,947	319,293,692
Charged to other comprehensive income	-	<u>8,614,869</u>	-	<u>8,614,869</u>
At 31 December 2016	<u><u>223,402,316</u></u>	<u><u>48,727,323</u></u>	<u><u>1,601,180,027</u></u>	<u><u>1,873,309,667</u></u>

16 Deferred income taxes (Cont'd)

Deferred income tax assets are recognised for tax loss carried forwards only to the extent to which the realisation of the related tax benefit through the future taxable profits is probable.

	Finance lease Baht	Total Baht
Deferred tax liabilities		
At 1 January 2015	(1,701,774,712)	(1,701,774,712)
Credited to profit or loss	(355,574,471)	(355,574,471)
At 31 December 2015	<u>(2,057,349,183)</u>	<u>(2,057,349,183)</u>
At 1 January 2016	(2,057,349,183)	(2,057,349,183)
Credited to profit or loss	(123,391,055)	(123,391,055)
At 31 December 2016	<u>(2,180,740,238)</u>	<u>(2,180,740,238)</u>

17 Income taxes

	2016 Baht	2015 Baht
Current taxes:		
Adjustment in respect of prior year	12,007,877	-
Deferred taxes:		
- Deferred tax assets	(319,293,692)	(201,273,813)
- Deferred tax liabilities	123,391,055	355,574,471
Total income taxes	<u>(183,894,760)</u>	<u>154,300,658</u>

Income taxes on the Company's profit before taxes differ from the theoretical amount based on the basic tax rate of the Company due to the following:

	2016 Baht	2015 Baht
Profit before income taxes	<u>3,224,319,088</u>	<u>2,145,320,263</u>
Tax calculated at a tax rate of 20%	644,863,818	429,064,052
Tax effects of:		
Profit exempted from corporate income taxes due to promotional privileges under BOI	(627,297,401)	(430,193,999)
Expenses not deductible for tax purpose	11,466,547	10,438,732
Effect from early termination of finance lease	(53,459,056)	-
Difference in finance leases under promotional privilege period	(98,467,892)	110,229,161
Utilisation of previously unrecognised tax losses	(73,008,653)	34,762,712
Adjustment in respect of prior year	12,007,877	-
Tax charge	<u>(183,894,760)</u>	<u>154,300,658</u>

The weighted average applicable tax rate was -5.97% (2015: 7.19%).

17 Income taxes (Cont'd)

The tax (charge) credit relating to component of other comprehensive income are as follows:

	2016			2015		
	Before tax Baht	Tax credit Baht	After tax Baht	Before tax Baht	Tax charge Baht	After tax Baht
Remeasurement of employee benefit obligations	(43,074,344)	8,614,869	(34,459,475)	29,175,913	(5,835,183)	23,340,730
Other comprehensive income	(43,074,344)	8,614,869	(34,459,475)	29,175,913	(5,835,183)	23,340,730
Current taxes		-			-	
Deferred taxes		8,614,869			(5,835,183)	
		8,614,869			(5,835,183)	

18 Employee benefit obligations

	2016 Baht	2015 Baht
Statement of financial position Retirement benefits	254,950,594	168,945,620
Statement of comprehensive income Retirement benefits	44,530,630	42,178,576
Remeasurement for retirement benefits recognised in the statement of comprehensive income	43,074,344	(29,175,913)
Cumulative remeasurement for retirement benefits recognised in the statement of comprehensive income	(9,461,437)	(52,535,781)

Movements in the retirement benefit obligations during the year are as follows:

	2016 Baht	2015 Baht
Opening book amount	168,945,620	157,547,925
Current service costs	39,597,214	36,916,484
Interest costs	4,933,416	5,262,092
Remeasurements:		
(Gain) loss from exchange in demographic assumptions	30,126,184	(26,765,080)
(Gain) loss from change in financial assumptions	(5,638,465)	10,206,386
Experience (gain) loss	18,586,625	(12,617,219)
Benefits paid	(1,600,000)	(1,604,968)
Closing book amount	254,950,594	168,945,620

18 Employee benefit obligations (Cont'd)

The amounts recognised in the statement of comprehensive income are as follows:

	2016 Baht	2015 Baht
Current service costs	39,597,214	36,916,484
Interest costs	4,933,416	5,262,092
Total, included in staff costs	<u>44,530,630</u>	<u>42,178,576</u>

The principal actuarial assumptions used are as follows:

		2016	2015
Discount rate	% per annum	3.09	2.92
Salary incremental rate	% per annum	5.59 - 10.00	5.59 - 10.00
Staff turnover rate	% per annum	0.00 - 10.00	0.00 - 12.00

	Impact on defined benefit obligation					
	Change in assumptions		Increase in assumptions		Decrease in assumptions	
	2016	2015	2016	2015	2016	2015
Discount rate	1%	1%	Decrease by 12.72%	Decrease by 12.27%	Increase by 15.43%	Increase by 14.78%
Salary incremental rate	1%	1%	Increase by 14.50%	Increase by 14.27%	Decrease by 12.23%	Decrease by 12.13%
Staff turnover rate	1%	1%	Decrease by 13.78%	Decrease by 13.38%	Increase by 12.06%	Increase by 11.42%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change from the previous period.

19 Share capital

	Par value Baht	Number of authorised ordinary shares Shares	Issued and paid-up ordinary shares Shares	Issued and paid-up ordinary shares Baht	Share premium Baht	Total Baht
At 1 January 2015	10	43,555,560	43,555,560	435,555,600	2,628,786,469	3,064,342,069
Issue of shares	-	-	-	-	-	-
At 31 December 2015	10	43,555,560	43,555,560	435,555,600	2,628,786,469	3,064,342,069
Issue of shares	-	-	-	-	-	-
At 31 December 2016	<u>10</u>	<u>43,555,560</u>	<u>43,555,560</u>	<u>435,555,600</u>	<u>2,628,786,469</u>	<u>3,064,342,069</u>

The total number of authorised ordinary shares is 43,555,560 shares (2015: 43,555,560 shares) with a par value of Baht 10 per share (2015: Baht 10 per share). All issued shares are fully paid.

20 Dividends paid

At the Board of Directors Meeting held on 9 November 2016, the Board of Directors approved the payment of interim dividends in respect of the retained earnings derived from activities under promotional privileges from the Board of Investment (“BOI”) as of 30 September 2016 at Baht 30.80 per share (2015: Baht 22 per share) for 43,555,560 ordinary shares, totalling Baht 1,341.51 million (2015: Baht 958.22 million). The dividends were paid to shareholders on 11 November 2016.

21 Legal reserve

	2016 Baht	2015 Baht
At 1 January	43,555,560	-
Appropriation during the year	-	43,555,560
At 31 December	<u>43,555,560</u>	<u>43,555,560</u>

Under the Public Limited Company Act., B.E. 2535, the Company is required to set aside as a legal reserve at least 5% of its net profit after accumulated deficit brought forward (if any) until the reserve is not less than 10% of the registered capital. The legal reserve is non-distributable.

22 Revenues from sales and services

Revenues from sales and services are as follows:

	2016 Baht	2015 Baht
Passenger service revenues	24,993,481,284	22,091,893,669
Baggage handling and other service fees	4,828,815,716	4,811,362,443
Charter flight revenues	1,963,343,895	2,081,089,616
In-flight revenues	403,129,319	322,959,745
Freight revenues	211,798,417	200,000,000
Total revenues	<u>32,400,568,631</u>	<u>29,507,305,473</u>

23 Expenses by nature

The following expenditure items, classified by nature, have been charged in arriving at the operating profit:

	Notes	2016 Baht	2015 Baht
Depreciation and amortisation	11,12	1,163,417,009	1,106,722,854
Staff costs		4,508,779,686	3,377,679,708
Fuel costs		8,257,545,785	9,830,407,370
Aircraft rental - related party	25.2	4,464,646,976	4,147,355,311
Aircraft rental - other		409,573,954	-
Repair and maintenance		2,907,840,055	2,337,954,895
Ramp and airport operations costs		3,727,582,587	3,362,626,401

24 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of paid-up ordinary shares outstanding during the year.

	<u>2016</u>	<u>2015</u>
Net profit for the year (Baht)	3,408,213,848	1,991,019,605
Weighted average number of paid-up ordinary shares outstanding (Shares)	43,555,560	43,555,560
Basic earnings per share (Baht)	78.25	45.71

The Company does not have dilutive ordinary shares as at 31 December 2016 and 2015.

25 Related party transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

On 31 December 2016, the Company is controlled by Asia Aviation Public Company Limited which owns 55% of the shares of the Company (31 December 2015: 55%).

On 13 June 2016, Asia Aviation Public Company Limited ("Parent company") changed its major shareholder from the Bijleveld family, also the Parent company's management, to the Srivaddhanaprabha family, the new major shareholder and management of the King Power Group. The remaining shares are widely held. The shareholding structure change caused new related party transactions: commission from sales of duty free goods, passenger service revenues and sponsorship fee paid to Leicester City Football Club because the Parent company and the King Power Group have the same major shareholder from 13 June 2016 onwards.

For reporting purposes, AirAsia Berhad, who holds 45% of the Company's shares and AirAsia Berhad's related parties are referred to as the other related parties.

The following significant transactions were carried out with related parties:

25.1) Income

	<u>2016</u> <u>Baht</u>	<u>2015</u> <u>Baht</u>
Other related parties		
Interest income	13,236,477	14,442,708
Other administrative fees	40,179,762	44,443,238
Commission from sales of duty free goods	4,535,865	-
Passenger service revenues	542,641	-

25 Related party transaction (Cont'd)

The following significant transactions were carried out with related parties: (Cont'd)

25.2) Purchases of goods, services and expenses

	2016 Baht	2015 Baht
Other related parties		
Share of loss from fuel price swap agreements	312,271,224	1,298,054,586
Share of staff costs for accounting and other services	36,699,725	37,644,887
Aircraft rental	4,464,646,976	4,147,355,311
Aircraft repair and maintenance	2,075,044,788	1,527,210,017
Purchases of merchandises and equipment	94,646,211	244,699,899
Management fee expenses	17,012,300	16,595,132
Booking fee expenses	161,996,712	133,141,805
Pilot training expenses	140,718,558	119,707,049
Brand license fee expenses	329,957,862	307,867,500
Sponsorship fee paid to Leicester City Football Club	31,788,130	-
Parent company		
Management fee expenses	25,000,000	25,000,000

25.3) Management remunerations

Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is as follows:

	2016 Baht	2015 Baht
Salaries and other short-term employee benefits	112,959,496	75,079,537
Retirement benefits	5,122,690	6,073,888
	<u>118,082,186</u>	<u>81,153,425</u>

Outstanding balances of amount due from related parties, aircraft maintenance reserves, other non-current assets and amount due to related parties are summarised as follows:

25.4) Amounts due from related parties

	2016 Baht	2015 Baht
Other related parties	<u>804,788,351</u>	<u>326,208,917</u>

Amounts due from related parties have been charged with the interest for overdue amount at 6.00% per annum (2015: 6.00% per annum).

25.5) Aircraft maintenance reserves

AirAsia Berhad, a related party, had entered into an Aircraft maintenance services agreement with the Company. Under this agreement, the Company will make prepayments for the aircraft maintenance reserves based on the number of aircraft, number of engines and number of hours flown. These maintenance reserves are managed by AirAsia Berhad for future maintenance/overhaul deemed necessary to be performed once the aircraft reaches certain engine hours/hours flown.

As at 31 December 2016, the Company had commitment from an Aircraft maintenance services agreement amounting to US Dollars 4,742,878 (as at 31 December 2015: US Dollars 21,960,368).

25 Related party transactions (Cont'd)

Outstanding balances of receivables, aircraft maintenance reserves, other non-current assets and payables are summarised as follows: (Cont'd)

25.6) Other non-current assets

	2016 Baht	2015 Baht
Other related parties		
Aircraft rental deposits	741,346,452	748,209,343
Fuel price swap deposit	17,829,400	17,961,650
	<u>759,175,852</u>	<u>766,170,993</u>

25.7) Amounts due to related parties

	2016 Baht	2015 Baht
Other related parties	430,781,485	917,878,501
Parent company	6,687,500	-
	<u>437,468,985</u>	<u>917,878,501</u>

26 Commitments

Operating lease commitments

As at 31 December, the Company had outstanding commitments in respect of the non-cancellable office leases and others as follows:

	2016 Baht	2015 Baht
Within 1 year	28,610,722	47,449,315
Later than 1 year but not later than 5 years	26,792,147	4,958,386
Total	<u>55,402,869</u>	<u>52,407,701</u>

As at 31 December, the Company had the future aggregate minimum lease payments in respect of non-cancellable operating aircraft lease agreements made with AirAsia (Mauritius) Limited, which is a related company, and other third party lessors, and insurance agreements of aircraft and aircraft engines as follows:

	2016		2015	
	Rental US Dollars	Insurance agreement US Dollars	Rental US Dollars	Insurance agreement US Dollars
Within 1 year	141,613,445	1,668,900	126,647,808	1,003,906
Later than 1 year but not later than 5 years	500,694,439	-	481,391,232	-
Later than 5 years	189,148,559	-	220,655,835	-
Total	<u>831,456,443</u>	<u>1,668,900</u>	<u>828,694,875</u>	<u>1,003,906</u>

27 Guarantees

As at 31 December 2016, there was a commitment related to guarantees issued by bank in respect of pilot trainees' loans in accordance with its professional pilot courses amounting to Baht 215.66 million (31 December 2015: Baht 178.17 million). Normally, a guarantee is terminated when the pilot trainee earns a commercial pilot's license and is assigned as a co-pilot or when the pilot trainee settles all outstanding debts with the bank. However, the Company can fully reclaim the stated liabilities from the pilot trainees' guarantors, who have pledged guarantees with the company.

28 Letters of guarantee

The Company had commitments from letters of guarantee in respect of ground handling, technical support, and other flight operating activities including maintenance reserve fund in the ordinary course of business as follows:

	2016					2015		
	Baht million	US Dollars million	Malaysia Ringgit million	Singapore Dollars million	Indian Rupee million	Baht million	US Dollars million	Indian Rupee million
Guarantees relating to flight operating activities	7.90	0.09	1.00	1.81	57.42	7.90	0.09	23.58
Guarantees relating to maintenance reserve fund	-	38.78	-	-	-	-	27.62	-
Total	7.90	38.87	1.00	1.81	57.42	7.90	27.71	23.58

The Company also used its saving and current accounts as collaterals for these letters of guarantee as follows:

	2016					2015		
	Baht million	US Dollars million	Malaysia Ringgit million	Singapore Dollars million	Indian Rupee million	Baht million	US Dollars million	Indian Rupee million
Saving account	-	-	-	-	-	85.38	-	-
Current account	-	-	-	-	3.30	-	7.61	12.68
Total	-	-	-	-	3.30	85.38	7.61	12.68

29 Promotional privileges

On 13 March 2013, the Company received a certificate of promotional privileges from the Board of Investment ("BOI") for 24 aircraft for air transportation business. The main privileges include exemption from payment of import duty on aircraft and related spare parts and exemption from corporate income taxes for the promoted activities for a period of eight years starting from the date on which the Company started earning income from the promotes activities. To be entitled to the privileges, the Company must comply with the conditions and restrictions provided in the promotional certificates. The conditions are that the Company's authorised and paid-up share capital is not less than Baht 435.50 million.

As at 31 December 2016, the Company had received 23 aircraft under such certificate of promotional privileges from the BOI (as at 31 December 2015: 17 aircraft).