THIS CIRCULAR TO THE SHAREHOLDERS (“CIRCULAR”) OF AIRASIA X BERHAD (“AAX” OR “COMPANY”) (“SHAREHOLDERS”) IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the next course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular as well as the Valuer’s Letters (as defined herein) and report, makes no representation as to their accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular as well as the Valuer’s Letters and report.

AIRASIA X BERHAD
(Registration No. 200601014410 (734161-K))
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE:-

PART A

(I) PROPOSED ISSUANCE OF FREE WARRANTS;
(II) PROPOSED PRIVATE PLACEMENT;
(III) PROPOSED AAAGL ACQUISITION;
(IV) PROPOSED AAB ACQUISITION;
(V) PROPOSED SHARE CAPITAL REDUCTION; AND
(VI) PROPOSED GRANTING OF SUBSCRIPTION OPTIONS

PART B

INDEPENDENT ADVICE LETTER TO OUR NON-INTERESTED SHAREHOLDERS IN RELATION TO THE PROPOSED ACQUISITIONS

AND

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Principal Adviser

INTER-PACIFIC SECURITIES SDN. BHD.
197201001092 (12738-U)
A Participating Organisation of Bursa Malaysia Securities Berhad
A Trading Participant of Bursa Malaysia Derivatives Berhad

Independent Adviser

WYNCORP CORPORATE FINANCE ADVISOR
WYNCORP ADVISORY SDN BHD
(Registration No. 200301029902 (632322-H))
(Incorporated in Malaysia)

The Extraordinary General Meeting (“**EGM**”) of our Company will be held as a virtual meeting via live streaming and online remote voting using the Remote Participation and Voting Facilities provided by Tricor Investor & Issuing House Services Sdn Bhd via its TIIH Online website at https://tiih.online, from the Broadcast Venue at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia. The Notice of the EGM together with the Form of Proxy for the EGM are enclosed with this Circular.

If you decide to appoint a proxy or proxies to participate and vote on your behalf at the EGM, you must complete, sign and return the Form of Proxy for the EGM and deposit it at the registered office of our Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia on or before the day, date and time indicated below or at any adjournment thereof. You also have the option to lodge the proxy appointment electronically via TIIH Online website at https://tiih.online before the lodgement cut-off time as indicated below. For further information on the electronic lodgement for Form of Proxy for the EGM via TIIH Online, please refer to the Administrative Details which are available at our Company’s website at **www.airasiax.com/agm_egm.html**. The lodging of the Form of Proxy for the EGM will not preclude you from participating and voting at the virtual EGM should you subsequently decide to do so.

Day, date and time of the EGM	:	Wednesday, 16 October 2024 at 10.00 a.m.
Last day, date and time for lodging the Form of Proxy for the EGM	:	Monday, 14 October 2024 at 10.00 a.m.
Online meeting platform	:	https://tiih.online

This Circular is dated 24 September 2024

(I) PROPOSED ISSUANCE OF UP TO 223,536,401 FREE WARRANTS IN AAX ("WARRANTS") ON THE BASIS OF 1 WARRANT FOR EVERY 2 ORDINARY SHARES IN AAX ("SHARES") HELD BY OUR SHAREHOLDERS ON AN ENTITLEMENT DATE TO BE DETERMINED AND ANNOUNCED LATER ("PROPOSED ISSUANCE OF FREE WARRANTS");

(II) PROPOSED PRIVATE PLACEMENT OF NEW SHARES TO INDEPENDENT THIRD PARTY INVESTORS TO BE IDENTIFIED LATER AT AN ISSUE PRICE TO BE DETERMINED LATER TO RAISE GROSS PROCEEDS OF RM1,000.00 MILLION ("PROPOSED PRIVATE PLACEMENT");

(III) PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW SHARES AT AN ISSUE PRICE OF RM1.30 EACH ("PROPOSED AAAGL ACQUISITION");

(IV) PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN AIRASIA BERHAD HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,800.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ASSUMPTION BY AAX OF AN AMOUNT OF RM3,800.00 MILLION OWING BY CAPITAL A BERHAD TO AIRASIA BERHAD ("PROPOSED AAB ACQUISITION");

(THE PROPOSED AAAGL ACQUISITION AND PROPOSED AAB ACQUISITION SHALL COLLECTIVELY BE REFERRED TO AS THE "PROPOSED ACQUISITIONS")

(V) PROPOSED REDUCTION OF THE ISSUED SHARE CAPITAL OF AAX TO RM100.00 MILLION PURSUANT TO SECTION 116 OF THE COMPANIES ACT, 2016 ("PROPOSED SHARE CAPITAL REDUCTION"); AND

(THE PROPOSED ISSUANCE OF FREE WARRANTS, PROPOSED PRIVATE PLACEMENT, PROPOSED ACQUISITIONS AND PROPOSED SHARE CAPITAL REDUCTION SHALL COLLECTIVELY BE REFERRED TO AS THE "PROPOSALS")

(VI) PROPOSED GRANTING TO GARYNMA INVESTMENTS PTE LTD THE RIGHTS TO SUBSCRIBE FOR SUCH NUMBER OF NEW SHARES ("SUBSCRIPTION OPTIONS") REPRESENTING, IN AGGREGATE, 12% OF THE TOTAL ISSUED SHARES IN AAX IMMEDIATELY AFTER THE COMPLETION OF THE PROPOSED ACQUISITIONS (EXCLUDING TREASURY SHARES, IF ANY) VIA 3 SUBSCRIPTION OPTIONS OF 4% EACH ("PROPOSED GRANTING OF SUBSCRIPTION OPTIONS").

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:-

AAAGL	:	AirAsia Aviation Group Limited (Company No. LL03901), incorporated in Labuan
AAAGL Debt Novation	:	Assumption by Capital A of an aggregate amount of RM2,820.58 million owing by AAAGL to AAB, replacing AAAGL as the debtor, and resulting in Capital A owing the said sum to AAB. The AAAGL Debt Novation is part of the Vendor's Pre-Completion Restructuring to streamline the intercompany debts amongst Capital A, the AAAGL Group and AAB Group
AAAGL Equity Interest or **equity interest in AAAGL**	:	Equity interest (including any forms of capital contribution and any unissued capital) in AAAGL
AAAGL Group	:	Collectively, AAAGL and its group of companies
AAAGL Purchase Consideration	:	RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 Consideration Shares at an issue price of RM1.30 each
AAAGL SSPA	:	A conditional share sale and purchase agreement dated 25 April 2024 entered into between AAG (as purchaser) and Capital A (as vendor) for the Proposed AAAGL Acquisition, as amended, varied and supplemented by:- (i) a supplemental agreement dated 26 July 2024 entered into between our Company (as new purchaser), AAG (as original purchaser) and Capital A (as vendor). Pursuant to the supplemental agreement dated 26 July 2024, our Company has assumed the rights, benefits, titles, interests, obligations and liabilities of AAG to the AAAGL SSPA as the purchaser in respect of the Proposed AAAGL Acquisition; and (ii) a second supplemental agreement dated 4 September 2024 entered into between our Company and Capital A. Pursuant to the second supplemental agreement dated 4 September 2024, the approvals and/or consents of lenders / financiers of the AAAGL Group for the release and/or discharge of any corporate guarantee and/or security provided by the Capital A Group Post Disposal in favour of lenders / financiers of the AAAGL Group shall be obtained before the date of completion of the Proposed AAAGL Acquisition
AAAMS	:	AirAsia Aviation Management Services Sdn Bhd (Registration No. 200401023376 (661882-P)), incorporated in Malaysia
AAB	:	AirAsia Berhad (Registration No. 199301029930 (284669-W)), incorporated in Malaysia
AAB Equity Interest or **equity interest in AAB**	:	Equity interest (including any forms of capital contribution and any unissued capital) in AAB
AAB Group	:	Collectively, AAB and its group of companies

AAB Purchase Consideration	:	RM3,800.00 million to be satisfied entirely via the Debt Settlement
AAB SSPA	:	A conditional share sale and purchase agreement dated 25 April 2024 entered into between AAG (as purchaser) and Capital A (as vendor) for the Proposed AAB Acquisition, as amended, varied and supplemented by:- (i) a supplemental agreement dated 26 July 2024 entered into between our Company (as new purchaser), AAG (as original purchaser) and Capital A (as vendor). Pursuant to the supplemental agreement dated 26 July 2024, our Company has assumed the rights, benefits, titles, interests, obligations and liabilities of AAG to the AAB SSPA as the purchaser in respect of the Proposed AAB Acquisition; and (ii) a second supplemental agreement dated 4 September 2024 entered into between our Company and Capital A. Pursuant to the second supplemental agreement dated 4 September 2024, the approvals and/or consents of lenders / financiers of the AAB Group for the release and/or discharge of any corporate guarantee and/or security provided by the Capital A Group Post Disposal in favour of lenders / financiers of the AAB Group shall be obtained before the date of completion of the Proposed AAB Acquisition
AAG	:	AirAsia Group Berhad (formerly known as AirAsia Aviation Group Sdn Bhd) (Registration No. 202301013244 (1507166-M)), incorporated in Malaysia
AAI	:	AirAsia Inc. (Company No. CS201104662), incorporated in the Philippines
AAID	:	PT AirAsia Indonesia Tbk (Company No. 9120302112049), incorporated in Indonesia
AAV	:	Asia Aviation Public Company Limited (Company No. 0107554000313), incorporated in Thailand
AAX or **Company** or **Purchaser**	:	AirAsia X Berhad (Registration No. 200601014410 (734161-K)), incorporated in Malaysia
AAX Stake Transfer	:	Sale and transfer of 57,072,850 Shares, representing 12.77% equity interest in our Company as at the LPD, from AAB to Capital A for RM106.73 million at RM1.87 per Share
Act	:	Companies Act, 2016
AirAsia Ecosystem	:	Flights-travel-and-lifestyle ecosystem under the "AirAsia" brand (including "AirAsia X" brand)
AirAsia Group	:	Collectively, our Group, Capital A and its subsidiaries (including the AAAGL Group and AAB Group), joint venture companies, associate companies and other companies using the "AirAsia" brand
AOC	:	Airline operating company with an airline operator certificate (being a certificate issued by the relevant authorities authorising an operator to engage in specified aircraft operations)

ASK	:	Available seat-kilometres, which is a measure of the airline's passenger capacity and is calculated by multiplying the number of passenger seats available for sale and distance travelled
Bo Lingam	:	Tharumalingam A/L Kanagalingam (better known as Bo Lingam)
Board	:	Board of Directors of our Company
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd (Registration No. 198701006854 (165570-W)), incorporated in Malaysia
Bursa Securities	:	Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W)), incorporated in Malaysia
CAA	:	AirAsia (Cambodia) Co. Ltd. (Company No. 1000260250), incorporated in Cambodia
CAAM	:	Civil Aviation Authority of Malaysia
CAAM Act	:	Civil Aviation Authority of Malaysia Act 2017
CAGR	:	Compound annual growth rate
Capital A or **Vendor**	:	Capital A Berhad (Registration No. 201701030323 (1244493-V)), incorporated in Malaysia
Capital A RCUIDS	:	7-year redeemable convertible unsecured Islamic debt securities 2021/2028 issued by Capital A
Capital A Group Post Disposal	:	Capital A and its group of companies (excluding the AAAGL Group and AAB Group)
Circular	:	This circular to our Shareholders in relation to the Proposals and Proposed Granting of Subscription Options
Consideration Shares	:	New Shares to be issued pursuant to the Proposed AAAGL Acquisition
COVID-19	:	Coronavirus disease 2019
Datuk Kamarudin	:	Datuk Kamarudin bin Meranun
DCF	:	Discounted cash flow
Debt Settlement	:	Assumption by our Company of an amount of RM3,800.00 million owing by Capital A to AAB
Deed Poll	:	Deed poll constituting the Warrants to be executed by our Company
Deloitte or **Valuer**	:	Deloitte Corporate Advisory Services Sdn Bhd (Registration No. 199901012610 (487510-M)), incorporated in Malaysia
Directors	:	Directors of our Company as at the LPD and shall have the meaning given in subsection 2(1) of the Capital Markets and Services Act 2007 and in respect of the Proposed Acquisitions, shall include any person who is or was within the preceding 6 months of the date on which the terms of the Proposed Acquisitions were agreed upon, a director or chief executive of our Company, subsidiary or holding company

EGM	:	Extraordinary general meeting
EPS	:	Earnings per share
FPE	:	Financial period ended
FY	:	Financial year
FYE	:	Financial year ended
Garynma or **Subscriber**	:	Garynma Investments Pte Ltd (Registration No. 202119345G), incorporated in Singapore
Group	:	Collectively, AAX and our group of companies
High Court	:	High Court of Malaya
IAA	:	PT Indonesia AirAsia (Company No. 8120218211014), incorporated in Indonesia
IAAX	:	PT Indonesia AirAsia Extra (Company No. 8120213242406), incorporated in Indonesia
IAL	:	Independent advice letter dated 24 September 2024 from WYNCORP to our non-interested Shareholders in relation to the Proposed Acquisitions as set out in Part B of this Circular
IATA	:	International Air Transport Association
IMR Report	:	The independent market research report dated 20 September 2024 on the aviation industry in Asia Pacific and Malaysia prepared by SMITH ZANDER
Interested Directors	:	Collectively, Dato' Fam Lee Ee and Datuk Kamarudin
Interested Major Shareholders	:	Collectively, Tan Sri Tony Fernandes, Datuk Kamarudin, AAB, Capital A and Tune Group Sdn Bhd
Interpac or **Principal Adviser**	:	Inter-Pacific Securities Sdn Bhd (Registration No. 197201001092 (12738-U)), incorporated in Malaysia
Labuan	:	The Federal Territory of Labuan, Malaysia
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
Low-cost carrier	:	An airline that strives to minimise operating costs by adopting a no-frills business model in which ancillary services such as in-flight meals and beverages as well as checked baggage allowance are excluded from the fare prices of the flight tickets, and customers may opt to purchase them as add-ons
LPD	:	30 August 2024, being the latest practicable date prior to the printing of this Circular
LPS	:	Loss per share

Major Shareholder	:	A person who has an interest or interests in one or more voting shares in our Company and the number or aggregate number of those shares, is:- (i) 10% or more of the total number of voting shares in our Company; or (ii) 5% or more of the total number of voting shares in our Company where such person is the largest shareholder of our Company. For the purpose of this definition, "**interest**" shall have the meaning of "**interest in shares**" given in Section 8 of the Act. In respect of the Proposed Acquisitions, a "**Major Shareholder**" shall include any person who is or was within the preceding 6 months of the date on which the terms of the Proposed Acquisitions were agreed upon, a major shareholder of our Company, or any other corporation which is our subsidiary or holding company
Market Day	:	A day on which the stock market of Bursa Securities is open for trading in securities, which may include a Surprise Holiday. A "Surprise Holiday" means a day that is declared as a public holiday in the Federal Territory of Kuala Lumpur that has not been gazetted as a public holiday at the beginning of the calendar year
MAVCOM	:	Malaysian Aviation Commission
MAVCOM Act	:	Malaysian Aviation Commission Act 2015
MBLA	:	Master Brand Licensing Agreement dated 31 May 2023 (as amended and varied via a novation agreement dated 27 June 2023 and supplemented by a letter agreement dated 29 July 2024) entered into between Brand AA Sdn Bhd and AAAGL
NA	:	Net assets attributable to the owners
New Aviation Group	:	Collectively, our Group, AAAGL Group and AAB Group
Official List	:	A list specifying all securities which have been admitted for listing on Bursa Securities and not removed
PAA	:	Philippines AirAsia, Inc. (Company No. A1997-7490), incorporated in the Philippines
PACs	:	Persons acting in concert with Capital A in accordance with subsections 216(2) and 216(3) of the Capital Markets and Services Act, 2007
Placement Shares	:	New Shares to be issued pursuant to the Proposed Private Placement
Proposals	:	Collectively, the Proposed Issuance of Free Warrants, Proposed Private Placement, Proposed Acquisitions and Proposed Share Capital Reduction
Proposed AAAGL Acquisition	:	Proposed acquisition of 100% equity interest in AAAGL held by Capital A for the AAAGL Purchase Consideration

Proposed AAB Acquisition	:	Proposed acquisition of 100% equity interest in AAB held by Capital A for the AAB Purchase Consideration
Proposed Acquisitions	:	Collectively, the Proposed AAAGL Acquisition and Proposed AAB Acquisition
Proposed Distribution by Capital A	:	Proposed distribution by Capital A of 1,692,307,692 Consideration Shares to the entitled shareholders of Capital A by way of distribution-in-specie via a reduction and repayment of Capital A's share capital pursuant to Section 116 of the Act
Proposed Granting of Subscription Options	:	Proposed granting to Garynma the rights to subscribe for such number of new Shares representing, in aggregate, 12% of the total issued Shares immediately after the completion of the Proposed Acquisitions (excluding treasury shares, if any) via 3 Subscription Options of 4% each
Proposed Issuance of Free Warrants	:	Proposed issuance of up to 223,536,401 Warrants on the basis of 1 Warrant for every 2 Shares held by our Shareholders on the Warrants Entitlement Date
Proposed Private Placement	:	Proposed private placement of Placement Shares to independent third party investors to be identified later at an issue price to be determined later to raise gross proceeds of RM1,000.00 million
Proposed Share Capital Reduction	:	Proposed reduction of the issued share capital of our Company to RM100.00 million pursuant to Section 116 of the Act
Record of Depositors	:	A record of securities holders established by Bursa Depository under the Rules of Bursa Depository as issued pursuant to the Securities Industry (Central Depositories) Act, 1991, including the Securities Industry (Central Depositories) Amendment Act, 1998
RPK	:	Revenue passenger-kilometres, which is a measure of the volume of passengers carried by the airline and is calculated by multiplying the number of paying passengers in a flight by the distance travelled by the aircraft
Rules	:	Rules on Take-overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia
Shareholders	:	Shareholders of AAX
Shares	:	Ordinary shares in AAX
SMITH ZANDER	:	Smith Zander International Sdn Bhd (Registration No. 201301028298 (1058128-V)), incorporated in Malaysia
SSPAs	:	Collectively, the AAAGL SSPA and AAB SSPA
Subscription Option Agreement	:	A conditional subscription option agreement dated 26 July 2024 entered into between our Company and the Subscriber for the Proposed Granting of Subscription Options
Subscription Option Period	:	A period of 48 months from the date of granting of the Subscription Option, during which the Subscriber may, at any point of time, exercise the Subscription Option accepted by the Subscriber
Subscription Options	:	Rights to subscribe for the Subscription Shares

Subscription Shares	:	New Shares to be issued pursuant to the exercise of the Subscription Options
TAA	:	Thai AirAsia Co. Ltd (Company No. 0105546113684), incorporated in Thailand
TAAX	:	Thai AirAsia X Co., Ltd (Company No. 0105556044936), incorporated in Thailand
Tan Sri Tony Fernandes	:	Tan Sri Anthony Francis Fernandes
Target Companies	:	Collectively, AAAGL and AAB
Total Purchase Consideration	:	Collectively, the AAAGL Purchase Consideration and AAB Purchase Consideration
Tune Air	:	Tune Air Sdn Bhd (Registration No. 200101012770 (548526-V)), incorporated in Malaysia
Tune Live	:	Tune Live Sdn Bhd (Registration No. 201101020485 (948620-U)), incorporated in Malaysia
US	:	United States of America
Valuation Letter	:	Valuation letter dated 25 July 2024 issued by Deloitte in respect of the valuation of the entire AAAGL Equity Interest and AAB Equity Interest
Valuer's Assessment Letter	:	Letter dated 10 September 2024 issued by Deloitte in respect of its assessment of the issuance of bonds by AirAsia RB 1 Ltd (a wholly-owned subsidiary of AAB) on the valuation of the entire AAAGL Equity Interest and AAB Equity Interest
Valuer's Letters	:	Collectively, the Valuation Letter and Valuer's Assessment Letter
Vendor's Pre-Completion Restructuring	:	AAX Stake Transfer and streamlining of intercompany debts amongst Capital A, the AAAGL Group and AAB Group by way of reassignment of intercompany debts and offsetting arrangements
VWAP	:	Volume-weighted average market price
Warrants	:	Up to 223,536,401 free warrants in our Company to be issued pursuant to the Proposed Issuance of Free Warrants
Warrants Entitled Shareholders	:	Shareholders whose names are registered in the Record of Depositors of our Company on the Warrants Entitlement Date
Warrants Entitlement Date	:	5.00 p.m. on a date to be determined by our Board and announced later on which the names of our Shareholders must be registered in the Record of Depositors of our Company in order to be entitled to participate in the Proposed Issuance of Free Warrants
Warrants Holders	:	Holders of the Warrants
WYNCORP or **Independent Adviser**	:	WYNCORP Advisory Sdn Bhd (Registration No. 200301029902 (632322-H)), incorporated in Malaysia

CURRENCIES

IDR	:	Indonesian Rupiah
INR	:	Indian Rupee
PHP	:	Philippines Peso
RM and sen	:	Ringgit Malaysia and sen respectively
SGD	:	Singapore Dollar
THB	:	Thai Baht
USD	:	United States Dollar

All references to "AAX" and "our Company" in this Circular are to AirAsia X Berhad and references to "our Group" are to our Company and our group of companies. All references to "we", "us", "our" and "ourselves" are to our Company, and where the context requires, our Group or any entities within our Group. All references to "you", "your", "yourselves" and "our Shareholders" in this Circular are to the shareholders of AAX.

In this Circular, words referring to the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include corporations, unless otherwise specified.

Any reference in this Circular to any statutes, rules, regulations, enactments, rules of the stock exchange or guidelines is a reference to that statutes, rules, regulations, enactments, rules of the stock exchange or guidelines as for the time being amended or re-enacted. Any reference to time and date in this Circular shall be a reference to Malaysian time and date, unless otherwise stated. Any discrepancies in the tables between the actual figures, amounts stated and the totals in this Circular are, unless otherwise explained, due to rounding.

Certain statements in this Circular may be forward-looking in nature, which are subject to uncertainties and contingencies. Forward-looking statements may contain estimates and assumptions made by our Board after due enquiry, which are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed or implied in such forward-looking statements. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Circular should not be regarded as a representation or warranty that our plans and objectives will be achieved.

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TABLE OF CONTENTS

PART A

LETTER TO OUR SHAREHOLDERS IN RELATION TO THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS

THIS EXECUTIVE SUMMARY HIGHLIGHTS THE SALIENT INFORMATION OF THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS. YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR AND THE APPENDICES AND NOT SOLELY RELY ON THIS EXECUTIVE SUMMARY IN FORMING YOUR VOTING DECISION ON THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS.

1. Details of the Proposed Issuance of Free Warrants

A summary of the key information of the Proposed Issuance of Free Warrants is set out below:-

Key information	Summary
(i) Entitled shareholders	Our Shareholders on the Warrants Entitlement Date
(ii) Entitlement basis	1 Warrant for every 2 Shares held on the Warrants Entitlement Date
(iii) Number of Warrants to be issued	Up to 223,536,401 Warrants
(iv) Warrants Entitlement Date	Will be determined by our Board and announced later
(v) Exercise price of Warrants	At the 5-day VWAP of our Shares up to and including the last trading day prior to the price-fixing date of the Warrants
(vi) Exercise period of Warrants	5 years from the date of issuance of the Warrants
(vii) Ranking of new Shares to be issued pursuant to the exercise of the Warrants	Rank equally in all respects with the then existing issued Shares
(viii) Listing status	Both Warrants and new Shares to be issued pursuant to the exercise of the Warrants will be listed and quoted on the Main Market of Bursa Securities
(ix) Use of proceeds from the exercise of Warrants	• Fund the New Aviation Group's working capital requirements; • Repayment of borrowings, debentures and lease liabilities; and/or • Capital expenditure
(x) Conditionality of the Proposed Issuance of Free Warrants	Conditional upon the Proposed AAAGL Acquisition and Proposed AAB Acquisition but not *vice versa*
(xi) Implementation of the Proposed Issuance of Free Warrants	In 1 tranche, before the implementation of the Proposed Private Placement and Proposed Acquisitions
(xii) Rationale of the Proposed Issuance of Free Warrants	• Reward you for your continuous support towards our Group with the Warrants which are tradable on the Main Market of Bursa Securities; • Provide you with an opportunity to increase your equity participation in our Company at a pre-determined exercise price over the tenure of the Warrants; • Provide the New Aviation Group with additional funds as and when the Warrants are exercised in the future; and • Strengthen the capital base of the New Aviation Group from the exercise of the Warrants

Please refer to **Sections 2 and 8.1, Part A** of this Circular for further details.

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2. Details of the Proposed Private Placement

A summary of the key information of the Proposed Private Placement is set out below:-

<table>
<tr><th>Key information</th><th>Summary</th></tr>
<tr><td>(i) Investors</td><td>Independent third party local and/or foreign investors which qualify under Schedule 6 or Schedule 7 of the Capital Markets and Services Act, 2007</td></tr>
<tr><td>(ii) Gross proceeds to be raised</td><td>RM1,000.00 million</td></tr>
<tr><td>(iii) Number of Placement Shares to be issued</td><td>Up to 1,000,000,000 Placement Shares</td></tr>
<tr><td>(iv) Issue price of Placement Shares</td><td>At a discount of not more than 15% to the 5-day VWAP of our Shares up to and including the last trading day prior to the price-fixing date of the Placement Shares and in any event, the minimum issue price of the Placement Shares shall be RM1.00 per Placement Share</td></tr>
<tr><td>(v) Ranking of Placement Shares</td><td>Rank equally in all respects with the then existing issued Shares</td></tr>
<tr><td>(vi) Listing status</td><td>Placement Shares will be listed and quoted on the Main Market of Bursa Securities</td></tr>
<tr><td>(vii) Use of proceeds from the Proposed Private Placement</td><td>
<table>
<tr><th>Proposed use of proceeds</th><th>Expected timeframe for use of proceeds from the completion of the Proposed Private Placement</th><th>Amount (RM'000)</th></tr>
<tr><td>(i) Additional funds for the New Aviation Group's aviation businesses
• Funding for aircraft purchase, maintenance of leased engines and other aircraft parts as well as associated pre-delivery payments
• Pre-payment / Repayment of the AAB Group's term loan facilities
• General working capital</td><td>Within 24 months</td><td>954,610</td></tr>
<tr><td>(ii) Estimated expenses for the Proposals and Proposed Granting of Subscription Options</td><td>Immediate</td><td>45,390</td></tr>
<tr><td>Total</td><td></td><td>1,000,000</td></tr>
</table>
</td></tr>
<tr><td>(viii) Conditionality of the Proposed Private Placement</td><td>Not conditional upon any other proposals</td></tr>
<tr><td>(ix) Implementation of the Proposed Private Placement</td><td>In 1 or multiple tranches, after the Warrants Entitlement Date and closer to / concurrent with the implementation of the Proposed Acquisitions</td></tr>
<tr><td>(x) Rationale of the Proposed Private Placement</td><td>• Strengthen the financial position of our Group amidst undertaking the Proposed Acquisitions; and
• Raise additional funds which shall be used in the manner as stipulated in the abovementioned proposed use of proceeds from the Proposed Private Placement</td></tr>
</table>

Please refer to **Sections 3 and 8.2, Part A** of this Circular for further details.

3. Details of the Proposed Acquisitions

A summary of the key information of the Proposed Acquisitions is set out below:-

Key information	Summary	
	Proposed AAAGL Acquisition	**Proposed AAB Acquisition**
(i) Purchaser	AAX	AAX
(ii) Vendor	Capital A	Capital A
(iii) Equity interest to be acquired in the Target Company	100% equity interest in AAAGL, free from encumbrances	100% equity interest in AAB, subject to encumbrances arising from the issuance of bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB. Further details are set out in Section 10 of Appendix V of this Circular
(iv) Purchase consideration	RM3,000.00 million	RM3,800.00 million
(v) Mode of settlement	Allotment and issuance of 2,307,692,307 Consideration Shares at an issue price of RM1.30 each	Debt Settlement / Assumption of debt owing by Capital A to AAB
(vi) Basis and justification	<u>AAAGL Purchase Consideration (RM3,000.00 million)</u> In justifying the AAAGL Purchase Consideration, our Board (save for our Interested Directors) has taken into consideration the following:- (i) rationale and benefits of the Proposed Acquisitions; (ii) outlook of the aviation industry and prospects of the Target Companies and the New Aviation Group; (iii) the AAAGL Purchase Consideration falls within the range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at 31 December 2023; and (iv) the AAAGL Purchase Consideration represents a discount of approximately RM285.50 million or 8.69% to the mid-point of the valuation range for AAAGL (being RM3,285.50 million) and the Total Purchase Consideration (RM6,800.00 million) represents a discount of approximately RM647.00 million or 8.69% to the aggregate of the mid-point of the valuation range for AAAGL and AAB (being RM7,447.00 million)	<u>AAB Purchase Consideration (RM3,800.00 million)</u> In justifying the AAB Purchase Consideration, our Board (save for our Interested Directors) has taken into consideration the following:- (i) rationale and benefits of the Proposed Acquisitions; (ii) outlook of the aviation industry and prospects of the Target Companies and the New Aviation Group; (iii) the AAB Purchase Consideration falls within the range of valuation for the entire AAB Equity Interest of between RM3,721.00 million and RM4,602.00 million as at 31 December 2023; and (iv) the AAB Purchase Consideration represents a discount of approximately RM361.50 million or 8.69% to the mid-point of the valuation range for AAB (being RM4,161.50 million) and the Total Purchase Consideration (RM6,800.00 million) represents a discount of approximately RM647.00 million or 8.69% to the aggregate of the mid-point of the valuation range for AAAGL and AAB (being RM7,447.00 million)

3. Details of the Proposed Acquisitions (cont'd)

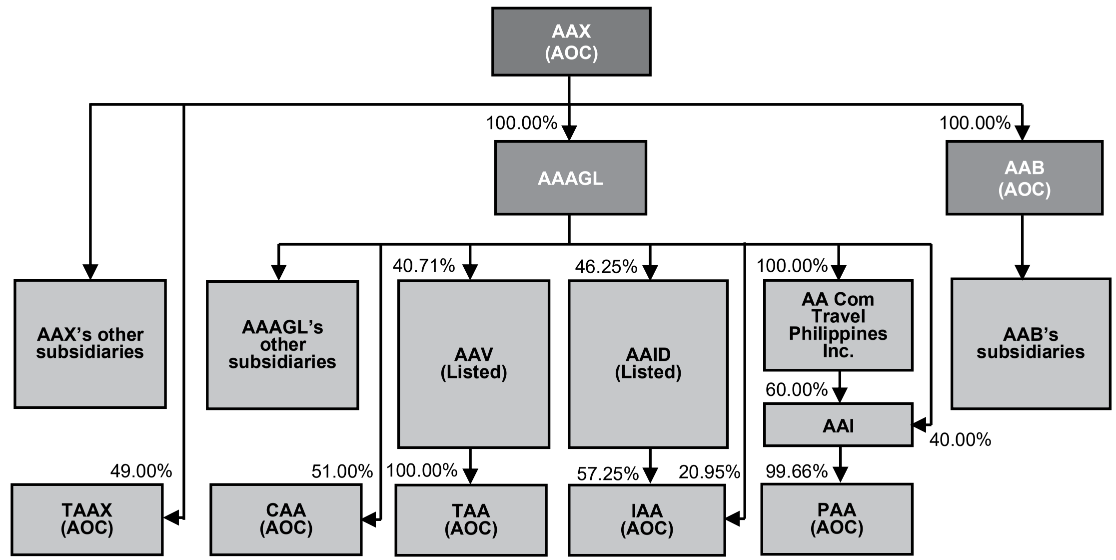
Key information	Summary	
	Proposed AAAGL Acquisition	**Proposed AAB Acquisition**
(vi) Basis and justification (cont'd)	<u>Issue price of the Consideration Shares (RM1.30)</u> The issue price of RM1.30 per Consideration Share was determined after taking into consideration the 5-day VWAP of our Shares up to and including 15 April 2024, being the latest practicable date used to finalise the negotiation on the issue price of the Consideration Shares prior to the date of signing of the SSPAs and the announcement of the Proposals and Proposed Granting of Subscription Options ("**Announcement LPD**"). In justifying the issue price of the Consideration Shares, our Company had taken into consideration the following:- (i) the issue price of RM1.30 per Consideration Share:- (a) is equivalent to the closing market price of our Shares as at the Announcement LPD; (b) is equivalent to the 5-day VWAP of our Shares up to and including the Announcement LPD; and (c) represents a premium of approximately 4.84% over the closing market price of our Shares as at 24 April 2024, being the last trading day prior to the date of the AAAGL SSPA ("**LTD**") of RM1.24; (d) represents a premium of approximately 7.44% over the 5-day VWAP of our Shares up to and including the LTD of RM1.21; and (e) represents a premium of 400.00% over the audited consolidated NA of our Company as at 31 December 2023 of RM0.26 per Share; and (ii) the issuance of the Consideration Shares to fully satisfy the AAAGL Purchase Consideration allows our Group to be able to complete the Proposed AAAGL Acquisition whilst conserving our cash for working capital requirements.	-
(vii) Ranking of Consideration Shares	Rank equally in all respects with the then existing issued Shares	-

3. Details of the Proposed Acquisitions (cont'd)

Key information	Summary	
	Proposed AAAGL Acquisition	**Proposed AAB Acquisition**
(viii) Listing status	Consideration Shares will be listed and quoted on the Main Market of Bursa Securities	-
(ix) Conditionality of the Proposed Acquisitions	The Proposed AAAGL Acquisition is conditional upon the Proposed Private Placement but not *vice versa*	The Proposed AAB Acquisition is conditional upon the Proposed Private Placement but not *vice versa*

Rationale of the Proposed Acquisitions

Upon completion of the Proposed Acquisitions, the New Aviation Group will house all the airline entities operating under the "AirAsia" brand (including "AirAsia X" brand) and the aviation-related businesses currently undertaken by our Group, AAAGL Group and AAB Group. There will be 7 airlines operating under the enlarged aviation group, namely (1) 'Malaysia AirAsia' operated by AAB, (2) 'Thai AirAsia' operated by TAA, (3) 'Philippines AirAsia' operated by PAA, (4) 'Indonesia AirAsia' operated by IAA, (5) 'AirAsia Cambodia' operated by CAA, (6) 'AirAsia X' operated by our Company and (7) 'Thai AirAsia X' operated by TAAX.



3. Details of the Proposed Acquisitions (cont'd)

The rationale and benefits of the Proposed Acquisitions are as follows:-

- New Aviation Group to house award-winning "AirAsia" low-cost carriers with over 22 years of established history and track record to provide a full spectrum of short, medium and long-haul air travel, with domestic flights and international flights from Malaysia, Thailand, the Philippines, Indonesia and Cambodia to numerous destination countries;

- New Aviation Group set to achieve elevated synergistic benefits through centralised decision-making and more co-ordinated network plans, in particular to further optimise its fleet management and utilisation;

- About 400 new aircraft deliveries from Airbus to facilitate continued growth and expansion for all "AirAsia"-branded airlines over the next decade, thereby averting a scenario of fleet stagnation for our Group and losing market share to growing competitors locally and regionally;

- Our Group to secure long-term sustainability leveraging on the "AirAsia" brand and AirAsia Ecosystem with stronger leverage and bargaining power as part of the enlarged aviation group following the completion of the Proposed Acquisitions and to continue to benefit from the already-present synergies from being part of a wider AirAsia Ecosystem which is critical to support our Group's business operations and growth; and

- An opportunity to be part of the enlarged aviation group to capitalise on anticipated air traffic recovery. The Proposed Acquisitions present an opportunity to you to own a part of the New Aviation Group and to bear the risks and rewards associated with ownership of the enlarged aviation group amidst the anticipated recovery of international air traffic post COVID-19

Please refer to **Sections 4, 5 and 8.3, Part A** of this Circular for further details.

4. Details of the Proposed Share Capital Reduction

The Proposed Share Capital Reduction entails the reduction of the issued share capital of our Company to RM100.00 million pursuant to Section 116 of the Act.

The Proposed Share Capital Reduction will enable our Company to rationalise the New Aviation Group's financial position by eliminating the accumulated losses arising from the consolidation of accumulated losses of the Target Companies after the completion of the Proposed Acquisitions to reflect more accurately the value of the underlying assets and the financial position of the New Aviation Group. In addition, the Proposed Share Capital Reduction will enhance the financial profile of the New Aviation Group with its bankers, customers, suppliers, investors and other stakeholders following the elimination of the accumulated losses.

The Proposed Share Capital Reduction is not conditional upon any other proposals.

Please refer to **Sections 6 and 8.4, Part A** of this Circular for further details.

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5. Details of the Proposed Granting of Subscription Options

A summary of the key information of the Proposed Granting of Subscription Options is set out below:-

Key information	Summary
(i) Subscriber	Garynma
(ii) Number of Subscription Shares to be issued	In aggregate 12% of the total issued shares in our Company immediately after the completion of the Proposed Acquisitions (excluding treasury shares, if any)
(iii) Granting of Subscription Options	All the 3 Subscription Options of 4% each will be granted by our Company to the Subscriber immediately after the completion of the Proposed Acquisitions
(iv) Acceptance of each Subscription Option	Each Subscription Option granted may be individually accepted in full or in part by the Subscriber at any point of time during a period of 24 months from the date of granting of the Subscription Option
(v) Exercise of each Subscription Option	The Subscription Option may be exercised by the Subscriber at any point of time during a period of 48 months from the date of granting of the Subscription Option to subscribe, in full or in part, for the Subscription Shares
(vi) Issue price of the Subscription Shares	At the closing market price of our Shares as at the last trading day prior to acceptance by the Subscriber of the grant of the relevant Subscription Option
(vii) Ranking of Subscription Shares	Rank equally in all respects with the then existing issued Shares
(viii) Listing status	Subscription Shares will be listed and quoted on the Main Market of Bursa Securities
(ix) Use of proceeds from the issuance of Subscription Shares	• Repayment of borrowings, debentures and lease liabilities; and • General working capital
(x) Conditionality of the Proposed Granting of Subscription Options	Not conditional upon any other proposals
(xi) Rationale of the Proposed Granting of Subscription Options	The Proposed Granting of Subscription Options is undertaken in recognition of:- (i) the Subscriber's past commitment to support and participate for an amount of up to RM50.00 million in AAX's previous fund-raising as set out in the circular to our Shareholders dated 10 May 2021 ("**Previous Fund-raising**"). The commitment was formalised through the execution of a share subscription agreement entered into between our Company and Garynma on 4 April 2022. In the said share subscription agreement, our Company had agreed to grant an option for the Subscriber to subscribe for such number of Shares representing up to 15% of the enlarged total number of issued Shares (excluding treasury shares, if any) at any point of time during the 36-month subscription period commencing from the completion of a proposed rights issue to raise gross proceeds of up to RM300.00 million ("**Previous Subscription Option**"); (ii) AAX, with the demonstration of the Subscriber's commitment to support and participate in the Previous Fund-raising, had successfully completed our debt restructuring exercise (which took effect on 16 March 2022). The debt restructuring exercise was crucial for the survival and going concern of our Group and arising therefrom, our Group recorded other income of RM34,313.14 million for the 18-month FPE 31 December 2022; and (iii) the Subscriber's rights to the Previous Subscription Option under the share subscription agreement entered into between our Company and Garynma on 4 April 2022

Please refer to **Sections 7 and 8.5, Part A** of this Circular for further details.

6. Risks of the Proposals

The Proposals, in particular the Proposed Acquisitions, will subject our Group to the following key risks, which are by no means exhaustive:-

Non-completion risk	There is no assurance that the requisite approvals will be obtained, the conditions precedent in the relevant agreements will be fulfilled or that the parties to the relevant agreements will be able to fulfill their respective obligations under the agreements within the timeframe stipulated therein. In respect of the Proposed Private Placement, there is no assurance that the Placement Shares will be fully subscribed by investors
Investment risk	There is no assurance that the anticipated benefits and synergies arising from the Proposed Acquisitions will be realised or that the New Aviation Group will be able to generate sufficient returns to offset the dilutive effects to our Shareholders arising from the issuance of Consideration Shares
Projection risk	There is no assurance that the AOCs will be able to achieve the projected results in the future and that the key underlying bases and assumptions used in arriving at the valuation of the Target Companies will materialise as planned
Goodwill and impairment risk	Any impairment on the carrying amount of the investments in the Target Companies (including any goodwill and intangible assets arising from the Proposed Acquisitions) and amortisation of any intangible assets identified from the Proposed Acquisitions may affect the financial performance and financial position of the New Aviation Group
Risk of triggering Practice Note 17 of the Listing Requirements ("PN17")	There is no assurance that our Company will not trigger the prescribed criteria pursuant to Paragraph 8.04 of the Listing Requirements and Paragraph 2 of PN17 and be classified as a PN17 issuer again following the completion of the Proposed Acquisitions in view that the Target Companies were the major contributors to the decline in financial performance and financial position of Capital A during the COVID-19 pandemic period
Limitation of liabilities	In the event that a claim by the Purchaser against the Vendor arising from, amongst others, unfavourable outcome of litigation cases, crystallisation of contingent liabilities and additional tax liabilities to be paid by the Target Companies, is limited or restricted due to pre-determined minimum thresholds and limitation of liabilities pursuant to the SSPAs or the Vendor is unable to fulfill its obligations in respect of such claim, this may have a material adverse effect on the financial performance and financial position of the New Aviation Group
Financing and default risk	There is no assurance that the necessary financing will be available in amounts or on terms and conditions acceptable to the New Aviation Group. In respect of debt financing, the New Aviation Group is highly geared and could potentially be exposed to risk of default and fluctuation in interest rates on the financing obtained
Foreign exchange risk	A portion of the airlines' revenue and costs are exposed to foreign exchange risks, including seat sales, freight services, fuel costs, maintenance, repair and overhaul expense and rental expense. Any fluctuation in foreign exchange rates will have an impact to the financial performance of the airlines
Risk of reliance on "AirAsia" brand (including "AirAsia X" brand) and AirAsia Ecosystem	In the event that the MBLA is not renewed at its expiry or is terminated, the New Aviation Group will not be able to continue leveraging on the "AirAsia" brand and this is expected to have a material adverse effect on the enlarged aviation group's financial performance. Further, any deterioration to the brand recognition may also have an adverse effect on the business, operations and financial performance of the airlines. In addition, the airlines also rely on the AirAsia Ecosystem which helps to support the airlines' businesses. Losing such benefits of comprehensive support services from the AirAsia Ecosystem, the New Aviation Group may face challenges in running the operations of the airlines effectively and in a cost-efficient manner
Foreign investment risk	In the event of any changes in the foreign investment policies in Labuan, Thailand, the Philippines and Indonesia which restrict or prohibit foreign investments in the respective foreign entities or repatriation of profits from these countries, there may be a material and adverse impact to the New Aviation Group
Dilution of existing shareholdings of our Shareholders	The issuance of Placement Shares, Consideration Shares and Subscription Shares will have a dilutive impact to the existing shareholdings of our Shareholders in AAX.

Please refer to **Section 10, Part A** of this Circular for further details.

7. Approvals required
The Proposals are subject to the following being obtained:- (i) the approval from Bursa Securities; (ii) your approval for the Proposals at an EGM to be held; (iii) the confirmation from the High Court for the Proposed Share Capital Reduction pursuant to Section 116 of the Act; and (iv) the approvals / waivers / consents from any other relevant authorities and/or parties, if required. The Proposed Granting of Subscription Options is subject to the following being obtained:- (i) the approval from Bursa Securities; (ii) your approval for the Proposed Granting of Subscription Options at an EGM to be held; and (iii) the approvals / waivers / consents from any other relevant authorities and/or parties, if required. Please refer to **Section 13, Part A** of this Circular for further details.

8. Interests of Directors, Major Shareholders, chief executive and/or persons connected
<u>Proposed Issuance of Free Warrants</u> None of our Directors, Major Shareholders, chief executive of our Company and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Issuance of Free Warrants other than their respective entitlements, if any, as our Shareholders under the Proposed Issuance of Free Warrants, of which all other Shareholders on the respective entitlement dates are similarly entitled to on a pro-rata basis. **<u>Proposed Acquisitions and Proposed Private Placement</u>** <u>Interested Directors</u> Dato' Fam Lee Ee and Datuk Kamarudin <u>Interested Major Shareholders</u> Tan Sri Tony Fernandes, Datuk Kamarudin, AAB, Capital A, Tune Group Sdn Bhd **<u>Proposed Share Capital Reduction and Proposed Granting of Subscription Options</u>** None of our Directors, Major Shareholders, chief executive of our Company and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Share Capital Reduction and Proposed Granting of Subscription Options. Please refer to **Section 15, Part A** of this Circular for further details.

9. Directors' recommendation
Our Board (save for our Interested Directors in relation to the Proposed Private Placement and Proposed Acquisitions) recommends that you **vote in favour** of the resolutions to give effect to the Proposals and Proposed Granting of Subscription Options at our forthcoming EGM. Please refer to **Section 19, Part A** of this Circular for further details.

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AIRASIA X BERHAD
(Registration No. 200601014410 (734161-K))
(Incorporated in Malaysia)

Registered office:
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa
Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan

24 September 2024

Board of Directors

Dato' Fam Lee Ee *(Non-Independent Non-Executive Chairman)*
Datuk Kamarudin bin Meranun *(Non-Independent Executive Director)*
Tan Sri Asmat bin Kamaludin *(Independent Non-Executive Director)*
Chin Min Ming *(Independent Non-Executive Director)*
Dato' Abdul Mutalib bin Alias *(Independent Non-Executive Director)*
Dato' Sri Mohammed Shazalli bin Ramly *(Independent Non-Executive Director)*

To: Our Shareholders

Dear Sir / Madam,

(I) PROPOSED ISSUANCE OF FREE WARRANTS;
(II) PROPOSED PRIVATE PLACEMENT;
(III) PROPOSED AAAGL ACQUISITION;
(IV) PROPOSED AAB ACQUISITION; AND
(V) PROPOSED SHARE CAPITAL REDUCTION

(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

(VI) PROPOSED GRANTING OF SUBSCRIPTION OPTIONS

1. INTRODUCTION

On 8 January 2024, our Board announced that our Company has entered into a non-binding letter of acceptance with Capital A for the proposed acquisitions of 100% equity interest in AAAGL and 100% equity interest in AAB, both of which are wholly-owned subsidiaries of Capital A.

On 13 March 2024 and 9 April 2024, on behalf of our Board, Interpac announced that our Company and Capital A have mutually agreed to extend the negotiation period to execute the definitive agreement for the proposed acquisitions of 100% equity interest in AAAGL and 100% equity interest in AAB until 30 April 2024.

After rounds of deliberation by our Board (save for our Interested Directors) and having considered all relevant aspects of the Proposals, our Board (save for our Interested Directors) is of the opinion that the Proposed Acquisitions are in the best interests of our Company in view of, amongst others, the following:-

(i) **New Aviation Group to house award-winning "AirAsia" low-cost carriers with over 22 years of established history and track record to provide a full spectrum of short, medium and long-haul[1] air travel.** The Proposed Acquisitions allow all the airline entities operating under the "AirAsia" brand (including "AirAsia X" brand) to be housed together, forming an enlarged aviation group comprising the New Aviation Group. This allows our Group to be part of an enlarged aviation group with award-winning airlines with over 22 years of established history and track record instead of being run and managed distinctively as a separate entity from the AAAGL Group and AAB Group. The New Aviation Group will operate and provide a full spectrum of short, medium and long-haul low-cost air transportation services, with domestic flights[2] and international flights[3] from Malaysia, Thailand, the Philippines, Indonesia and Cambodia to numerous destination countries;

<u>*Notes:-*</u>
(1) Short-haul refers to flights with a duration of up to 4 hours (medium-haul: 4 hours to 7 hours; long-haul: above 7 hours).
(2) A domestic flight is a flight within the same country.
(3) An international flight is a flight from one country to another country.

(ii) **New Aviation Group set to achieve elevated synergistic benefits through centralised decision-making and more co-ordinated network plans.** The Proposed Acquisitions are expected to enable the New Aviation Group to achieve elevated synergistic benefits through centralised decision-making, providing greater flexibility for the New Aviation Group to set the future business and strategic directions and business strategies as well as streamlining business functions and processes leading to improved efficiency as well as more economies of scale and cost savings (as detailed in Section 8.3, Part A of this Circular).

Notably, the Proposed Acquisitions are expected to enable the New Aviation Group to further optimise its fleet management and utilisation. With a centralised leadership and management following the completion of the Proposed Acquisitions, wet lease arrangements[1] can be entered into between the airlines within the New Aviation Group with greater flexibility and efficiency and this can increase the cross utilisation of aircraft across the airlines within the New Aviation Group. The scheduling and deployment of aircraft can be arranged based on prevailing market demand to achieve optimal passenger loads[2] in order to offer competitive flight ticket pricing while achieving reasonable profitability margin (e.g. using narrowbody aircraft[3] with a smaller passenger capacity for non-peak seasons / new routes with uncertain take-up rate and widebody aircraft[4] with a larger passenger capacity for peak seasons / routes which have matured) as well as potentially capture a higher market share for air travel within the Southeast Asia and Asia Pacific regions by organising more co-ordinated network plans under the centralised leadership and management;

<u>*Notes:-*</u>
(1) A wet lease arrangement is a leasing arrangement whereby one airline (lessor) provides an aircraft, together with complete crew, maintenance and insurance to a lessee, and the operations of which are carried out as the lessee's flight.
(2) Passenger loads refer to the number of passengers carried in an aircraft.
(3) A narrowbody aircraft refers to a medium-sized passenger aircraft with a single passenger aisle, with typically smaller passenger capacity and lower flight range capabilities as compared to a widebody aircraft.
(4) A widebody aircraft refers to a large passenger aircraft with 2 passenger aisles, with typically larger passenger capacity and higher flight range capabilities as compared to a narrowbody aircraft.

(iii) **About 400 new aircraft deliveries from Airbus to facilitate continued growth and expansion for all "AirAsia"-branded airlines over the next decade.** As at the LPD, the airlines to be housed under the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035). Certainty for aircraft deliveries is important for the enlarged aviation group to meet its fleet replacement and expansion plans. Aircraft deliveries from this orderbook are envisioned to be allocated to AOCs within the New Aviation Group as necessary to facilitate continued growth and expansion for all "AirAsia"-branded airlines including our Group, thereby averting a scenario of fleet stagnation for our Group and losing market share to growing competitors locally and regionally. In addition to securing immediate access to fleet growth prospects through AAB's existing orderbook, our Group, as part of the enlarged aviation group following the completion of the Proposed Acquisitions, will be able to leverage on the combined credit track record of the New Aviation Group to negotiate for better credit terms for our future leasing contracts and lease facilities;

(iv) **Our Group to secure long-term sustainability leveraging on the "AirAsia" brand and AirAsia Ecosystem.** The Proposed Acquisitions allow our Group to strengthen the leverage to continue to benefit from the already-present synergies from being part of a wider AirAsia Ecosystem which is critical to support our Group's business operations and growth. Since the commencement of our Group's business, we have close association with other entities within the AirAsia Group, leveraging on the "AirAsia" brand and AirAsia Ecosystem. Our Group, as part of the enlarged aviation group following the completion of the Proposed Acquisitions, will gain stronger leverage and bargaining power to secure continuous usage of the "AirAsia" brand which is an established brand in the aviation industry, and to secure continuous collaborations and comprehensive support services from the AirAsia Ecosystem to run our airline operations effectively and in a cost-efficient manner. Without these benefits, our Group would face significant challenges in navigating through the competitive landscape of the aviation industry and securing long-term sustainability.

(v) **An opportunity to be part of the enlarged aviation group to capitalise on anticipated air traffic recovery.** The Proposed Acquisitions present an opportunity to you to own a part of the New Aviation Group and to bear the risks and rewards associated with ownership of the enlarged aviation group amidst the anticipated recovery of international air traffic post COVID-19.

On 25 April 2024, our Company had entered into a conditional internal reorganisation agreement with AAG for the implementation of a proposed internal reorganisation by way of a members' scheme of arrangement under Section 366 of the Act ("**Proposed Internal Reorganisation**") comprising the following ("**Internal Reorganisation Agreement**"):-

(i) proposed exchange of all Shares with new ordinary shares in AAG on the basis of 1 new ordinary share in AAG for every 1 existing Share held by the entitled Shareholders on an entitlement date to be determined by our Board and announced later; and

(ii) proposed assumption by AAG of the listing status of AAX and the admission of AAG to, and the withdrawal of AAX from, the Official List with the listing and quotation of the entire enlarged issued share capital of AAG on the Main Market of Bursa Securities.

The Proposed Internal Reorganisation was proposed to be undertaken for the purposes of streamlining our Group's corporate structure, segregating the listed entity from the operating entities under our Group as well as to establish a new holding company to house all the airline entities operating under the "AirAsia" brand (including "AirAsia X" brand) and the aviation-related businesses currently undertaken by our Group, AAAGL Group and AAB Group following the completion of the Proposed Acquisitions.

On even date, AAG had entered into the AAAGL SSPA and AAB SSPA with Capital A for the Proposed AAAGL Acquisition and Proposed AAB Acquisition respectively. The Proposed Acquisitions are deemed to be related party transactions pursuant to Paragraph 10.08 of the Listing Requirements in view of the interests of our Interested Directors and Interested Major Shareholders in the Proposed Acquisitions as set out in Section 15, Part A of this Circular. Accordingly, our Company has on 18 April 2024 appointed WYNCORP as the independent adviser of our Company to advise our non-interested Directors and non-interested Shareholders on the fairness and reasonableness of the Proposed Acquisitions, and whether the Proposed Acquisitions are detrimental to the interest of our non-interested Shareholders.

In order to expedite the implementation and completion of the Proposals (if approved by you), our Board had on 26 July 2024 decided to abort the Proposed Internal Reorganisation and to undertake the Proposals and Proposed Granting of Subscription Options under AAX instead of AAG as initially proposed in the announcement dated 25 April 2024. This decision was arrived at after weighing potential benefits of the Proposed Internal Reorganisation against time required for the implementation of the Proposed Internal Reorganisation and more critically, the importance of an expedient completion of the Proposed Acquisitions to our Group. Accordingly, our Company and AAG had on 26 July 2024 mutually terminated the Internal Reorganisation Agreement.

In addition, on 26 July 2024, on behalf of our Board, Interpac announced that our Company (as new purchaser), AAG (as original purchaser) and Capital A (as vendor) had on even date entered into supplemental agreements to the respective SSPAs. Pursuant to the supplemental agreements dated 26 July 2024, our Company has assumed the rights, benefits, titles, interests, obligations and liabilities of AAG to the AAAGL SSPA and AAB SSPA as the purchaser in respect of the Proposed AAAGL Acquisition and Proposed AAB Acquisition respectively.

Further, on 4 September 2024, on behalf of our Board, Interpac announced that our Company and Capital A had on even date entered into the second supplemental agreements to the respective SSPAs. Pursuant to the second supplemental agreements dated 4 September 2024, the approvals and/or consents of lenders / financiers of the AAAGL Group and AAB Group for the release and/or discharge of any corporate guarantee and/or security provided by the Capital A Group Post Disposal in favour of lenders / financiers of the AAAGL Group and AAB Group shall be obtained before the date of completion of the Proposed AAAGL Acquisition and Proposed AAB Acquisition respectively.

In addition to the Proposed Acquisitions, our Board intends to undertake the following proposals:-

(i) Proposed Issuance of Free Warrants;

(ii) Proposed Private Placement; and

(iii) Proposed Share Capital Reduction.

In addition to the Proposals, our Board had initially proposed to grant to Garynma the rights to subscribe for such number of new shares representing, in aggregate, 15% of the total issued shares in AAG immediately after the completion of the Proposed Acquisitions (excluding treasury shares, if any) via 3 Subscription Options of 5% each, in place of the Previous Subscription Option (as defined in Section 7, Part A of this Circular) in acknowledgement and recognition of the support and participation of the Subscriber in our previous fund-raising which have assisted our Group in navigating the challenges faced during the COVID-19 pandemic period, as further elaborated in Section 7, Part A of this Circular.

Upon further deliberation between our Company and the Subscriber, both parties have agreed to reduce the Subscription Options from 15% in aggregate to 12% of the total issued shares in AAX immediately after the completion of the Proposed Acquisitions (excluding treasury shares, if any) via 3 Subscription Options of 4% each. The other terms of the Proposed Granting of Subscription Options remain unchanged. Following thereto, on 26 July 2024, our Company had entered into the Subscription Option Agreement with the Subscriber for the Proposed Granting of Subscription Options.

The changes in corporate structure of our Group are illustrated in Appendix I of this Circular.

On 12 September 2024, Interpac had, on behalf of our Board, announced that Bursa Securities had, vide its letter dated 11 September 2024, resolved to approve the following:-

(i) admission of up to 223,536,401 Warrants to be issued pursuant to the Proposed Issuance of Free Warrants to the Official List;

(ii) listing and quotation of up to 223,536,401 Warrants on the Main Market of Bursa Securities;

(iii) listing and quotation of up to 223,536,401 new Shares to be issued pursuant to the exercise of the Warrants on the Main Market of Bursa Securities;

(iv) listing and quotation of up to 1,000,000,000 Placement Shares to be issued pursuant to the Proposed Private Placement on the Main Market of Bursa Securities;

(v) listing and quotation of 2,307,692,307 Consideration Shares to be issued pursuant to the Proposed AAAGL Acquisition on the Main Market of Bursa Securities; and

(vi) listing and quotation of up to 450,571,813 Subscription Shares to be issued pursuant to the exercise of the Subscription Options on the Main Market of Bursa Securities.

The approval of Bursa Securities is subject to the conditions as set out in Section 13, Part A of this Circular.

The details of the Proposals and Proposed Granting of Subscription Options are further set out in the ensuing sections of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH RELEVANT INFORMATION ON THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS AND TO SET OUT THE VIEWS AND RECOMMENDATION OF OUR BOARD AS WELL AS TO SEEK YOUR APPROVAL FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS WHICH WILL BE TABLED AT OUR FORTHCOMING EGM. THE NOTICE OF THE EGM AND THE FORM OF PROXY FOR THE EGM ARE ENCLOSED IN THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS TO GIVE EFFECT TO THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS AT OUR FORTHCOMING EGM.

NOTHING IN THIS CIRCULAR CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION, INCLUDING THE UNITED STATES OF AMERICA. NONE OF OUR COMPANY'S SECURITIES REFERENCED HEREIN HAS BEEN OR WILL BE REGISTERED UNDER THE SECURITIES ACT OF 1933 OF THE UNITED STATES OF AMERICA, AS AMENDED, AND NO SUCH SECURITIES MAY BE OFFERED IN THE UNITED STATES OF AMERICA ABSENT REGISTRATION OR AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 OF THE UNITED STATES OF AMERICA. THERE WILL BE NO PUBLIC OFFERING OF OUR COMPANY'S SECURITIES IN THE UNITED STATES OF AMERICA.

2. DETAILS OF THE PROPOSED ISSUANCE OF FREE WARRANTS

2.1 Basis and number of Warrants to be issued

The Proposed Issuance of Free Warrants entails the issuance of up to 223,536,401 Warrants on the basis of 1 Warrant for every 2 Shares held by the Warrants Entitled Shareholders. For the avoidance of doubt, there will be no Warrants to be issued in respect of the Placement Shares, Consideration Shares and Subscription Shares.

The basis of 1 Warrant for every 2 Shares held by the Warrants Entitled Shareholders was determined after taking into consideration, amongst others, compliance with Paragraph 6.50 of the Listing Requirements which states that a listed issuer must ensure that the number of new shares which will arise from the exercise or conversion of all outstanding convertible equity securities (i.e. warrants and convertible preference shares) does not exceed 50% of the total number of issued shares of the listed issuer (excluding treasury shares and before the exercise of the convertible equity securities) at all times.

The actual number of Warrants to be issued will depend on the total number of Shares in issue on the Warrants Entitlement Date. As at the LPD, AAX has a total number of 447,072,803 issued Shares. Accordingly, a total of up to 223,536,401 Warrants will be issued in respect of the Proposed Issuance of Free Warrants.

Fractional entitlements for the Warrants arising from the Proposed Issuance of Free Warrants, if any, shall be disregarded and/or dealt with by our Board in such manner as our Board, in its absolute discretion, deems fit and expedient in the best interests of our Company.

The Warrants Entitlement Date will be determined by our Board and announced at a later date upon receipt of all relevant approvals for the Proposed Issuance of Free Warrants. The Proposed Issuance of Free Warrants is intended to be implemented before the implementation of the Proposed Private Placement and Proposed Acquisitions.

The Proposed Issuance of Free Warrants is not intended to be implemented in stages over a period of time.

2.2 Indicative salient terms of the Warrants

Issuer	:	AAX.
Issue size	:	Up to 223,536,401 Warrants.
Form and constitution	:	The Warrants will be issued in registered form and constituted by the Deed Poll.
Board lot	:	For the purpose of trading on Bursa Securities, board lots of Warrants shall be 100 Warrants, or such other denominations as permitted by Bursa Securities from time to time.
Tenure	:	5 years commencing on and including the date of issuance of Warrants.

Exercise period	:	The Warrants may be exercised at any time within a period of 5 years commencing from and including the date of issuance of the Warrants to the close of business at 5.00 p.m. (Malaysia time) on the Market Day immediately preceding the date which is the 5th anniversary of the date of issuance of the Warrants, and if such date is not a Market Day, then it shall be the Market Day immediately preceding the said non-Market Day ("**Warrants Exercise Period**"). Any Warrants which are not exercised by the expiry of the Warrants Exercise Period will lapse thereafter and cease to be valid for all purposes.
Exercise price	:	The exercise price of the Warrants will be determined by our Board and announced at a later date upon receipt of all relevant approvals for the Proposed Issuance of Free Warrants but before the announcement of the Warrants Entitlement Date.
Subscription rights	:	Each Warrant entitles its registered holder to subscribe for 1 new Share at the exercise price of the Warrants at any time during the Warrants Exercise Period, upon the terms of and subject to the conditions contained in the Deed Poll.
Mode of exercise	:	The Warrants Holders are required to lodge with our Company's registrar, a duly completed, signed and stamped subscription form in the form as set out in the Deed Poll, together with payment of the exercise price of the Warrants by banker's draft or cashier's order drawn on a bank operating in Malaysia or a money order or postal order issued by a post office in Malaysia or by way of internet bank transfer or via online payment gateway in accordance with the provisions of the Deed Poll.
Adjustments to the exercise price and/or number of Warrants	:	The exercise price and/or the number of Warrants shall from time to time be adjusted, calculated or determined by our Board in consultation with the approved adviser or the auditors appointed by our Company in accordance with the provisions of the Deed Poll in the event of alteration to the share capital of our Company at any time during the tenure of the Warrants, whether by way of, amongst others, capitalisation issues, rights issue, bonus issue, consolidation or subdivision of shares or capital reduction exercises.
Rights of the Warrants Holders	:	A Warrants Holder is not entitled to any voting right or participation in any forms of distribution and/or offer of further securities in our Company until and unless such Warrants Holder exercises the Warrants for new Shares in accordance with the procedure set out in the Deed Poll and such new Shares have been allotted and issued to the Warrants Holder.
Ranking of the Warrants	:	The Warrants shall, as between the Warrants Holders, rank equally and rateably without discrimination or preference, and all the Warrants issued pursuant to the Deed Poll shall be deemed to form part of the same series for all purposes under the Deed Poll.

Ranking of new Shares to be issued pursuant to the exercise of the Warrants	:	The new Shares to be issued pursuant to the exercise of the Warrants shall, upon allotment, issuance and payment of the exercise price of the Warrants, rank equally in all respects with the then existing issued Shares, save and except that the holders of such new Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to our Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the new Shares pursuant to the exercise of the Warrants.
Rights of the Warrants Holders in the event of winding up, compromise or arrangement	:	Where a resolution has been passed for a members' voluntary winding up of our Company, or there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of our Company or the amalgamation of our Company with 1 or more companies, then:- (i) for the purposes of such a winding up, compromise or arrangement (other than a consolidation, amalgamation or merger in which our Company is the continuing corporation) to which the Warrants Holders, or some persons designated by them for such purposes by a special resolution, shall be a party, the terms of such winding up, compromise or arrangement shall be binding on all the Warrants Holders; and (ii) in the event a notice is given by our Company to you to convene a general meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind up our Company, and in any other case and subject to provisions of the Deed Poll, every Warrants Holder shall thereupon be entitled to exercise the Warrants at any time within 6 weeks after the passing of such resolution for a members' voluntary winding up of our Company or within 6 weeks from the granting of the court order approving the winding up, compromise or arrangement, whereupon our Company shall allot the relevant Shares to the Warrants Holder credited as fully paid subject to the prevailing laws, and such Warrants Holder shall be entitled to receive out of the assets of our Company which would be available in liquidation if the Warrants Holder had on such date been the holder of the new Shares to which the Warrants Holder would have become entitled pursuant to such exercise and the liquidator of our Company shall give effect to such election accordingly. Upon the expiry of the aforesaid 6 weeks, all subscription rights of the Warrants shall lapse and cease to be valid for any purpose. Subject to the foregoing, if our Company is wound up or an order has been granted for such compromise or arrangement, all subscription rights of the Warrants which are not exercised prior to the passing of the resolution for winding up or the presentation of the petition for the winding up or the granting of the court order sanctioning the compromise or arrangement (other than a consolidation, amalgamation or merger in which our Company is the continuing corporation), will lapse and the relevant Warrants will cease to be valid for any purpose.

Modification	:	Any amendments or additions may be made to the provisions of the Deed Poll with the sanction of a special resolution of the Warrants Holders unless the amendments or additions are required to correct any typographical errors or relate purely to administrative matters or are required to comply with any provisions of the prevailing laws or regulations of Malaysia or in the opinion of our Company, will not be materially prejudicial to the interests of the Warrants Holders. Any modification, amendment or addition to the Deed Poll may be effected only by deed executed by our Company and expressed to be supplemental to the Deed Poll and if the approval of the Warrants Holders by way of a special resolution (if required) has been obtained. Any modification to the rights attached to the Warrants is subject to the approval of any relevant authorities.
Listing status	:	The Warrants and new Shares to be issued pursuant to the exercise of the Warrants will be listed and quoted on the Main Market of Bursa Securities.
Transferability	:	The Warrants may be transferred in accordance with the Securities Industry (Central Depositories) Act, 1991 and the Rules of Bursa Depository.
Governing law	:	The Warrants and the Deed Poll are governed by, and will be construed in accordance with, the laws of Malaysia.

2.3 Basis and justification for the exercise price of the Warrants

The Warrants will be issued free of any consideration to the Warrants Entitled Shareholders.

The exercise price of the Warrants will be determined by our Board and announced at a later date upon receipt of all relevant approvals for the Proposed Issuance of Free Warrants but before the announcement of the Warrants Entitlement Date.

Our Board intends to fix the exercise price of the Warrants at the 5-day VWAP of our Shares up to and including the last trading day prior to the price-fixing date of the Warrants.

For illustrative purposes, the exercise price of the Warrants is assumed to be RM1.32 based on the 5-day VWAP of our Shares up to and including the LPD (Source: Bloomberg).

2.4 Ranking of the Warrants and new Shares to be issued pursuant to the exercise of the Warrants

The Warrants Holders are not recognised as Shareholders and are not entitled to any dividends, rights, allotments and/or other distributions until and unless such Warrants Holders have exercised their Warrants into new Shares.

The new Shares to be issued pursuant to the exercise of the Warrants shall, upon allotment, issuance and payment of the exercise price of the Warrants, rank equally in all respects with the then existing issued Shares, save and except that the holders of such new Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to our Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the new Shares pursuant to the exercise of the Warrants.

2.5 Listing and quotation of the Warrants and new Shares to be issued pursuant to the exercise of the Warrants

Bursa Securities had, vide its letter dated 11 September 2024, resolved to approve the admission of the Warrants to the Official List as well as the listing and quotation of the Warrants and new Shares to be issued pursuant to the exercise of the Warrants on the Main Market of Bursa Securities. The approval of Bursa Securities is subject to the conditions as set out in Section 13, Part A of this Circular.

2.6 Use of proceeds from the exercise of Warrants

The Proposed Issuance of Free Warrants will not raise any immediate funds as the Warrants will be issued free of any consideration to the Warrants Entitled Shareholders.

Our Company will not receive any proceeds from the Warrants until such time the Warrants are exercised by the Warrants Holders. The exact quantum of proceeds that may be received by our Company upon the exercise of the Warrants will depend on the actual number of the Warrants exercised during the tenure of the Warrants and the exercise price of the Warrants to be determined.

Strictly for illustrative purposes, based on the illustrative exercise price of RM1.32 per Warrant, our Company will raise gross proceeds of up to approximately RM295.07 million upon full exercise of the Warrants.

Any proceeds from the exercise of the Warrants (which will be received on an "as and when" basis over the tenure of the Warrants) will be used to fund the New Aviation Group's working capital requirements (including but not limited to payment to lessors, suppliers, contractors, consultants and other creditors as well as defrayment of other operational and administrative expenses including payment of staff costs (such as salaries, bonuses, statutory contributions and other staff benefits), user charges, utilities, rental, travelling and accommodation expenses, maintenance and overhaul expenses and other office / operating expenses), for repayment of borrowings, debentures and lease liabilities and/or capital expenditure.

The exact details, breakdown and timing for use of such proceeds as well as the benefits arising therefrom cannot be determined at this juncture as these will depend on the timing of receipt of such proceeds as well as the actual operating and financing requirements of the New Aviation Group at the relevant time.

Pending the use of proceeds from the exercise of Warrants, such proceeds shall be placed in interest-bearing deposits with licensed financial institutions and/or invested in short-term money market instruments, as our Board may deem fit. Any interests derived from the deposits with licensed financial institutions and/or gains derived from the short-term money market instruments will be used as additional funds to be used in the manner as abovementioned.

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3. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

3.1 Basis and number of Placement Shares to be issued

The Proposed Private Placement is undertaken to raise gross proceeds of RM1,000.00 million. The quantum of gross proceeds to be raised from the Proposed Private Placement (i.e. RM1,000.00 million) has been determined upfront while the issue price has not been determined at this juncture in order to provide flexibility to our Board in respect of the pricing of the Placement Shares. Due to potential share price movements, pricing the Placement Shares closer to the implementation of the Proposed Private Placement will enable the issue price of the Placement Shares to take into consideration the prevailing market price of our Shares at that point of time.

The actual number of Placement Shares to be issued will depend on the issue price of the Placement Shares to be determined later. Our Company has determined that the Placement Shares will be issued based on a discount of not more than 15% to the 5-day VWAP of our Shares up to and including the last trading day prior to the price-fixing date of the Placement Shares and in any event, the minimum issue price of the Placement Shares shall be RM1.00 per Placement Share.

Based on the minimum issue price of the Placement Shares, the maximum number of Placement Shares to be issued pursuant to the Proposed Private Placement to raise gross proceeds of RM1,000.00 million will be 1,000,000,000 Placement Shares, representing approximately 26.63% of the enlarged total number of issued Shares after the completion of the Proposed Private Placement and Proposed Acquisitions.

The Proposed Private Placement will be completed upon our Company raising gross proceeds of RM1,000.00 million from the Proposed Private Placement and the relevant number of Placement Shares have been allotted, issued and listed on the Main Market of Bursa Securities. However, in the event that the total gross proceeds raised is not exactly RM1,000.00 million due to rounding, the Proposed Private Placement may still be deemed completed. For illustrative purposes, if the issue price of the Placement Shares is assumed to be RM1.13, which represents a discount of approximately 14.39% to the 5-day VWAP of our Shares up to and including the LPD of RM1.32 (Source: Bloomberg), the Proposed Private Placement will entail the issuance of 884,955,752 Placement Shares, which will raise an amount of RM999,999,999.76.

There will be no Warrants to be issued in respect of the Placement Shares. Hence, the Proposed Private Placement will be implemented after the Warrants Entitlement Date and closer to / concurrent with the implementation of the Proposed Acquisitions. Nonetheless, the Proposed Private Placement may still be implemented in the event that the Proposed Issuance of Free Warrants is not approved and hence, not implemented. In order to comply with the public shareholding spread requirement pursuant to Paragraph 8.02 of the Listing Requirements, the Placement Shares may be allotted and issued on the same day as the Consideration Shares.

In the event that the Proposed Private Placement is not completed (i.e. our Company is unable to raise gross proceeds of RM1,000.00 million from the Proposed Private Placement), the Proposed Acquisitions may not proceed to completion due to non-fulfilment of the relevant conditions precedent unless the parties to the SSPAs agree otherwise to vary or waive the relevant conditions precedent in accordance with the terms and conditions of the SSPAs. An approval from our Shareholders will be sought in accordance with the Listing Requirements, if applicable.

3.2 Placement arrangement

The Placement Shares are intended to be placed to independent third party local and/or foreign investors to be identified later. Such investors shall be parties which qualify under Schedule 6 or Schedule 7 of the Capital Markets and Services Act, 2007. The Placement Shares are not intended to be placed to the following persons:-

(i) a director, major shareholder or chief executive of the listed issuer or a holding company of the listed issuer ("**Interested Person**");

(ii) a person connected with an Interested Person; or

(iii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

The Proposed Private Placement may be implemented in 1 or multiple tranches (as the investors may be identified and procured over a period of time rather than simultaneously) within a period of 6 months from the date of approval by Bursa Securities for the listing and quotation of the Placement Shares on the Main Market of Bursa Securities or any extended period as may be approved by Bursa Securities, subject to the prevailing market conditions.

The Placement Shares will only be offered to eligible investors in accordance with applicable securities laws of their respective jurisdictions, and no registration, filing or approval will be made or sought in any jurisdiction where any such action is required for the offer or sale of Placement Shares. In particular, the Placement Shares have not been and will not be registered under the Securities Act of 1933 of the US ("**US Securities Act**"), and may not be offered or sold in the US absent registration or an available exemption from the registration requirements of the US Securities Act. There will be no public offering of the Placement Shares in the US. References to the offering of Placement Shares in this Circular are for information purposes only in connection with informing a shareholder on the Proposals and Proposed Granting of Subscription Options. Nothing in this Circular constitutes an offer of such securities in any jurisdiction, including the US.

3.3 Basis and justification for the issue price of the Placement Shares

The Placement Shares will be issued based on a discount of not more than 15% to the 5-day VWAP of our Shares up to and including the last trading day prior to the price-fixing date of the Placement Shares, to be determined by our Board after taking into consideration the prevailing market conditions and in any event, the minimum issue price of the Placement Shares shall be RM1.00 per Placement Share.

The minimum issue price of RM1.00 per Placement Share was determined after taking into consideration the following:-

(i) the lowest closing market price of our Shares of RM1.18 for the past 1 year up to 24 April 2024, being the last trading day prior to the announcement of the Proposed Private Placement; and

(ii) a maximum discount of 15%.

The maximum discount of 15% is slightly higher than a maximum discount of 10% under general mandate for issue of securities. The maximum discount of 15% was determined based on our Board's intention to allow more flexibility to our Company to fix an issue price which is deemed sufficiently attractive to entice subscription by potential investors while minimising potential dilution to our existing Shareholders.

The eventual issue price of the Placement Shares will be based on the prevailing market conditions and market prices of our Shares at the price-fixing date of the Placement Shares. In any event, such issue price shall not be lower than the minimum issue price of RM1.00 per Placement Share. For information purposes, the minimum issue price of RM1.00 for the Placement Shares represents a premium of 284.62% over the audited consolidated NA of our Company as at 31 December 2023 of RM0.26 per Share.

As the Proposed Private Placement may be implemented in 1 or multiple tranches, there could potentially be several price-fixing dates and issue prices.

For illustrative purposes, the issue price of the Placement Shares is assumed to be RM1.13, which represents a discount of approximately 14.39% to the 5-day VWAP of our Shares up to and including the LPD of RM1.32 (Source: Bloomberg).

3.4 Ranking of the Placement Shares

The Placement Shares shall, upon allotment and issuance, rank equally in all respects with the then existing issued Shares, save and except that the holders of the Placement Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to our Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the Placement Shares.

For the avoidance of doubt, the Placement Shares will be allotted and issued after the Warrants Entitlement Date and hence, there will be no Warrants to be issued in respect of the Placement Shares.

3.5 Listing and quotation of the Placement Shares

Bursa Securities had, vide its letter dated 11 September 2024, resolved to approve the listing and quotation of the Placement Shares on the Main Market of Bursa Securities. The approval of Bursa Securities is subject to the conditions as set out in Section 13, Part A of this Circular.

3.6 Details of equity fund-raising exercises undertaken by our Company in the past 12 months

Save as disclosed below, our Company has not undertaken any other equity fund-raising exercises in the past 12 months before the announcement of the Proposals and Proposed Granting of Subscription Options on 25 April 2024:-

<u>Placement 2023</u>

On 15 June 2023, our Company completed a placement of 32,258,066 Shares, representing approximately 7.78% of the then total number of issued Shares, raising a total of approximately RM50.00 million ("**Placement 2023**").

As at the LPD, the said proceeds have been fully used as follows:-

Use of proceeds	Expected timeframe for use of proceeds from the date of listing of our Shares for Placement 2023	Proceeds raised (RM'000)	Actual use up to the LPD (RM'000)	Balance (RM'000)
(i) General working capital	Within 12 months	49,400	49,400[(1)]	-
(ii) Expenses in relation to the Placement 2023	Within 1 month	600	600	-
Total		**50,000**	**50,000**	**-**

Note:-

(1) As at the LPD, the proceeds amounting to RM49.40 million have been fully used to fund our Group's general working capital requirements as follows:-

Purpose	*RM'000*
• *Aircraft activation costs[(a)]*	*23,000*
• *Aircraft maintenance costs[(b)]*	*18,500*
• *Other operating expenses[(c)]*	*7,900*
Total	***49,400***

Notes:-

(a) Aircraft activation costs include costs for a rigorous series of maintenance checks and inspections to ensure aircraft's airworthiness condition before returning into service.

(b) Aircraft maintenance costs are in respect of maintenance, repair and overhaul expenses for our Group's aircraft, engines and other aircraft parts.

(c) Other operating expenses include staff costs, aircraft fuel expenses, user charges, lease payments and insurance expenses.

3.7 Use of proceeds from the Proposed Private Placement

The gross proceeds of RM1,000.00 million to be raised from the Proposed Private Placement are intended to be used in the following manner:-

Proposed use of proceeds	Expected timeframe for use of proceeds from the completion of the Proposed Private Placement	Amount (RM'000)
(i) Additional funds for the New Aviation Group's aviation businesses	Within 24 months	954,610
(ii) Estimated expenses for the Proposals and Proposed Granting of Subscription Options	Immediate	45,390
Total		**1,000,000**

(i) Additional funds for the New Aviation Group's aviation businesses

The gross proceeds from the Proposed Private Placement are mainly intended to be used in the New Aviation Group's aviation businesses within 24 months from the completion of the Proposed Private Placement in the following manner:-

Purpose	Indicative allocation (RM'000)
• Funding for aircraft purchase, maintenance of leased engines and other aircraft parts as well as associated pre-delivery payments[(1)]	450,000 to 550,000
• Pre-payment / Repayment of the AAB Group's term loan facilities[(2)]	300,000
• General working capital[(3)]	104,610 to 204,610

Notes:-

(1) A portion of the gross proceeds from the Proposed Private Placement is intended to be earmarked as funding for aircraft purchase, maintenance of leased engines and other aircraft parts as well as associated pre-delivery payments in the following manner:-

	Amount			
	Low range		***High range***	
Purpose	***(RM'000)***	***(%)***	***(RM'000)***	***(%)***
• *Deposits for purchase of 6 aircraft*	*250,000*	*55.56*	*270,000*	*49.09*
• *Maintenance in respect of 6 leased engines and other aircraft parts*	*200,000*	*44.44*	*220,000*	*40.00*
• *Pre-delivery payments in respect of aircraft purchases, being progress payments to be made to Airbus prior to the delivery of the aircraft*	*-*	*-*	*60,000*	*10.91*
Total	***450,000***	***100.00***	***550,000***	***100.00***

(2) As at 30 June 2024, the total consolidated borrowings, debentures and lease liabilities of AAX, AAAGL and AAB are RM1,490.21 million, RM9,638.72 million and RM16,444.29 million respectively. The proposed pre-payment / repayment of the AAB Group's term loan facilities amounting to RM300.00 million is expected to result in pre-tax annual interest savings of RM35.25 million based on the interest rate of 11.75% of the term loan facilities. The pre-payment / repayment of the AAB Group's term loan facilities is expected to be completed within 6 months from the completion of the Proposed Private Placement.

(3) A portion of the gross proceeds from the Proposed Private Placement is intended to be earmarked for general working capital of the New Aviation Group's aviation businesses in the following manner:-

	Amount			
	Low range		***High range***	
Purpose	***(RM'000)***	***(%)***	***(RM'000)***	***(%)***
• *Expansion of new routes*	*20,922*	*20.00*	*40,922*	*20.00*
• *Marketing, advertising and promotional activities*	*20,922*	*20.00*	*40,922*	*20.00*
• *System enhancements*	*20,922*	*20.00*	*40,922*	*20.00*
• *Other operating expenses (such as staff costs, aircraft fuel expenses, user charges, lease payments and insurance expenses)*	*41,844*	*40.00*	*81,844*	*40.00*
Total	***104,610***	***100.00***	***204,610***	***100.00***

Notwithstanding the above, the allocation as disclosed above is indicative and based on our management's best estimate only. The exact breakdown of the proceeds to be used for each component is subject to re-allocation as our Board may deem fit and in the best interests of the New Aviation Group, depending on the actual operating and financing requirements of the New Aviation Group's aviation businesses at the relevant time.

(ii) Estimated expenses for the Proposals and Proposed Granting of Subscription Options

The breakdown of the estimated expenses for the Proposals and Proposed Granting of Subscription Options are as follows:-

Estimated expenses	Amount (RM'000)
Professional fees *(including advisory fees payable to the Principal Adviser, management fees and placement commission payable to the placement agent, and other professional fees payable to, amongst others, the Independent Adviser, solicitors, reporting accountants, independent market researcher, independent valuers and share registrar of our Company in relation to the Proposals and Proposed Granting of Subscription Options)*	40,430[(1)]
Fees to the relevant authorities in relation to the Proposals and Proposed Granting of Subscription Options	770
Printing, despatch, advertising and meeting expenses as well as miscellaneous expenses and contingencies	4,190
Total	**45,390**

Note:-

(1) The total estimated professional fees of RM40.43 million (inclusive of taxes) are allocated to the respective proposals as follows:-

	Amount (RM'000)
• *Proposed Issuance of Free Warrants*	*236[(a)]*
• *Proposed Private Placement*	*28,284[(b)]*
• *Proposed AAAGL Acquisition*	*6,860[(c)]*
• *Proposed AAB Acquisition*	*4,641[(c)]*
• *Proposed Share Capital Reduction*	*257[(a)]*
• *Proposed Granting of Subscription Options*	*152[(a)]*
Total	***40,430***

Notes:-

(a) Mainly comprise solicitors' fees for the preparation of relevant documentation as well as legal advice and advisory fees payable to the Principal Adviser.

(b) Mainly comprise management fees and placement commission payable to the placement agent for its services in managing the Proposed Private Placement and securing investors for the Placement Shares to raise gross proceeds of RM1,000.00 million for our Company.

(c) Mainly comprise professional fees payable to the:-
(aa) Principal Adviser;
(bb) Independent Adviser for its independent advice to our non-interested Directors and non-interested Shareholders as well as an opinion on the fairness of the AAAGL Purchase Consideration for the Proposed AAAGL Acquisition;
(cc) solicitors for the preparation of relevant documentation as well as legal advice;
(dd) reporting accountants for the opinion on the compilation of the pro forma consolidated statement of financial position of our Group as at 31 December 2023 and accountants' reports;
(ee) independent market researcher for the preparation of the IMR Report;
(ff) independent valuers for the valuation of the entire equity interests in the Target Companies; and
(gg) financial and legal advisers for the due diligence exercise on the AAAGL Group and AAB Group.

The total estimated professional fees for the Proposed AAAGL Acquisition are higher than the Proposed AAB Acquisition as the Proposed AAAGL Acquisition is a foreign acquisition and requires the provision of fairness opinion on the AAAGL Purchase Consideration, legal advice as well as due diligence exercise on the relevant companies within the AAAGL Group incorporated and existing in various jurisdictions including Thailand, the Philippines and Indonesia.

If the actual expenses incurred for the Proposals and Proposed Granting of Subscription Options are higher than the budgeted amount, the deficit will be funded from the gross proceeds allocated for the New Aviation Group's aviation businesses. Conversely, any surplus funds following the payment of expenses for the Proposals and Proposed Granting of Subscription Options will be used for the New Aviation Group's aviation businesses.

Pending the use of proceeds from the Proposed Private Placement, such proceeds shall be placed in interest-bearing deposits with licensed financial institutions and/or invested in short-term money market instruments, as our Board may deem fit. Any interests derived from the deposits with licensed financial institutions and/or gains derived from the short-term money market instruments will be used as additional working capital for the New Aviation Group.

4. DETAILS OF THE PROPOSED AAAGL ACQUISITION

The Proposed AAAGL Acquisition entails the acquisition of the entire AAAGL Equity Interest from Capital A for a purchase consideration of RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 new Shares at an issue price of RM1.30 each in accordance with the terms of the AAAGL SSPA.

Subject to the terms of the AAAGL SSPA, the Vendor has agreed to sell and the Purchaser has agreed to purchase the entire AAAGL Equity Interest free from encumbrances and together with all rights and advantages attaching to them as at completion of the Proposed AAAGL Acquisition (including the right to receive all dividends and distributions declared, made or paid on or after the said completion).

Upon completion of the Proposed AAAGL Acquisition, AAAGL will become a wholly-owned subsidiary of our Company.

The salient terms of the AAAGL SSPA are set out in Appendix II(A) of this Circular.

4.1 Background information on AAAGL

AAAGL was incorporated in Labuan on 11 September 2003 under the Labuan Companies Act 1990 as a private limited company. AAAGL was formerly known as AA International Ltd until 17 November 2011, AirAsia Investment Ltd until 6 October 2021 and AirAsia Aviation Limited until 6 February 2022, after which it assumed its current name on 7 February 2022.

As at the LPD, the issued share capital of AAAGL is USD5,270,000 comprising 5,270,000 ordinary shares in AAAGL. As at the LPD, AAAGL is a direct wholly-owned subsidiary of Capital A, being the Vendor for the Proposed AAAGL Acquisition.

The directors of AAAGL as at the LPD are Tan Sri Jamaludin bin Ibrahim, Bo Lingam, Suvabha Charoenying, Lim Serh Ghee, Francisco Edralin Lim and Khoo Gaik Bee.

The principal activity of AAAGL is investment in shares outside Malaysia. Through its subsidiaries, namely TAA, PAA, IAA and CAA, the AAAGL Group provides air transport services from Thailand, the Philippines, Indonesia and Cambodia.

A summary of the financial information of the AAAGL Group for the FYE 31 December 2021, FYE 31 December 2022, FYE 31 December 2023 and 6-month FPE 30 June 2024 are as follows:-

	Audited			Unaudited
	FYE 31 December			FPE 30 June
	Economic entity[1]	Group		Group
	2021	2022	2023	2024
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Revenue	-	22,245	5,630,969	5,446,368
Profit / (Loss) after taxation	3,701	(302,591)	868,299	(664,650)
Profit / (Loss) after taxation attributable to the owners of AAAGL	3,701	(302,591)	1,137,184	(424,771)
Shareholders' deficit	(10,210)	(350,631)	(2,234,004)[2]	(4,515,397)[3]
Total borrowings, debentures and lease liabilities	-	171,376	9,789,132[2]	9,638,715
No. of shares in issue ('000)	5,270	5,270	5,270	5,270
EPS / (LPS) attributable to the owners of AAAGL (RM)	0.70	(57.42)	215.78	(80.60)
Net liabilities per share attributable to the owners of AAAGL (RM)	(1.94)	(66.53)	(423.91)	(856.81)
Current ratio (times)	0.86	0.16	0.09	0.11
Gearing (times)	-	n/a[4]	n/a[4]	n/a[4]

Notes:-

(1) Economic entity refers to AAAGL and its interests in associates.

(2) As set out in Section 1 of Appendix IV of this Circular, AAV, TAA, AAI, PAA, AAID and IAA have become subsidiaries of AAAGL during the FYE 31 December 2023. Arising therefrom, the AAAGL Group has a higher total borrowings, debentures and lease liabilities as at 31 December 2023 as compared to as at 31 December 2022. The business combinations of AAI, PAA, AAID and IAA were accounted for under the pooling of interest method and these have resulted in the higher shareholders' deficit of the AAAGL Group as at 31 December 2023 as compared to as at 31 December 2022.

(3) The increase in shareholders' deficit of the AAAGL Group from RM2,234.00 million as at 31 December 2023 to RM4,515.40 million as at 30 June 2024 was mainly due to the business combination of AA Com Travel Philippines Inc. during the 6-month FPE 30 June 2024 and the loss after taxation attributable to the owners of AAAGL of RM424.77 million for the 6-month FPE 30 June 2024.

(4) n/a denotes not applicable.

Further information on AAAGL is set out in Appendix IV of this Circular.

4.2 Background information on the Vendor

Capital A was incorporated in Malaysia on 24 August 2017 under the Act as a public limited company under the name of AirAsia Group Berhad. Pursuant to an internal reorganisation undertaken by AAB by way of a members' scheme of arrangement under Section 366 of the Act, Capital A assumed AAB's listing status on the Main Market of Bursa Securities on 16 April 2018. Capital A assumed its current name on 28 January 2022.

As at the LPD, the issued share capital of Capital A is RM8,769,410,847 comprising 4,306,905,831 ordinary shares in Capital A. As at the LPD, the substantial shareholders of Capital A and their respective shareholdings are as follows:-

	Direct		Indirect	
Name	**No. of shares**	**%(1)**	**No. of shares**	**%(1)**
Tune Live	509,000,000	11.82	-	-
Tune Air	516,485,082	11.99	-	-
Positive Boom Limited	332,498,504	7.72	-	-
Tan Sri Tony Fernandes	2,000,000	0.05	1,025,485,082(2)	23.81
Datuk Kamarudin	2,000,000	0.05	1,025,485,082(2)	23.81
Choi Chiu Fai, Stanley	-	-	332,498,504(3)	7.72

Notes:-
(1) Based on 4,306,905,831 issued shares of Capital A as at the LPD.
(2) Deemed interested by virtue of his interests in Tune Live and Tune Air pursuant to Section 8 of the Act.
(3) Deemed interested by virtue of his interest in Positive Boom Limited pursuant to Section 8 of the Act.

The directors of Capital A as at the LPD and their respective shareholdings in Capital A are as follows:-

	Direct		Indirect	
Name	**No. of shares**	**%(1)**	**No. of shares**	**%(1)**
Tan Sri Tony Fernandes	2,000,000	0.05	1,025,485,082(2)	23.81
Datuk Kamarudin	2,000,000	0.05	1,025,485,082(2)	23.81
Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar	-	-	-	-
Dato' Fam Lee Ee	-	-	-	-
Dato' Mohamed Khadar bin Merican	100,000	-(3)	-	-

Notes:-
(1) Based on 4,306,905,831 issued shares of Capital A as at the LPD.
(2) Deemed interested by virtue of his interests in Tune Live and Tune Air pursuant to Section 8 of the Act.
(3) Negligible.

The principal activity of Capital A is investment holding. Through its group of companies, Capital A is involved in aviation business and non-aviation businesses (such as aviation services including aircraft maintenance and in-flight meal services, travel and lifestyle super app, digital financial services platform, logistics services and brand management of "AirAsia" brand) in the Asia region.

4.3 Basis and justification for the AAAGL Purchase Consideration

The AAAGL Purchase Consideration was arrived at on a willing-buyer willing-seller basis after a series of negotiations with the Vendor and taking into consideration, amongst others, the range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at the valuation date of 31 December 2023 based on the valuation undertaken by Deloitte.

After extensive negotiations with the Vendor, the parties to the AAAGL SSPA have determined the AAAGL Purchase Consideration to be RM3,000.00 million, after taking into consideration the following:-

(i) the recovery phase of the aviation industry;

(ii) providing flexibility for the AAAGL Group to pursue its growth initiatives; and

(iii) Capital A and its shareholders' continued exposure in the business of the New Aviation Group via our Shares to be issued pursuant to the Proposed Acquisitions and Proposed Distribution by Capital A.

In justifying the AAAGL Purchase Consideration, our Board (save for our Interested Directors) has taken into consideration the following:-

(i) rationale and benefits of the Proposed Acquisitions as set out in Section 8.3, Part A of this Circular;

(ii) outlook of the aviation industry and prospects of the Target Companies and the New Aviation Group as set out in Section 9, Part A of this Circular;

(iii) the AAAGL Purchase Consideration falls within the abovementioned range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at 31 December 2023 as set out in the Valuation Letter as attached in Appendix VI(A) of this Circular.

The abovementioned range of valuation was arrived at based on the adjusted net asset value of AAAGL, which is computed as follows:-

	Low range (USD million)	**High range (USD million)**
Audited NA of AAAGL as at 31 December 2023[(1)(2)]	183	183
Adjustments:-		
(1) Upliftment in fair value of AAAGL's investments	(61)	116
(2) Capital contribution from Capital A arising from capitalisation of the intercompany debt amongst Capital A, the AAAGL Group and AAB Group	505	505
(3) Cost of investment incurred for the acquisition of 100% equity interest in AA Com Travel Philippines Inc. from Move Travel Sdn Bhd (formerly known as AirAsia Com Travel Sdn Bhd), a subsidiary of Capital A, which was completed on 25 March 2024	* (represents negative USD0.2 million)	* (represents negative USD0.2 million)
Adjusted net assets value of AAAGL	**628**	**805**
Range of valuation (RM'million)	**2,880**	**3,691**

Notes:-

(1) The audited NA of AAAGL as at 31 December 2023 of USD183 million is at the company level.

(2) For information purposes, the audited total shareholders' deficit of AAAGL as at 31 December 2023 at the group level is RM2,234.00 million (equivalent to approximately USD517.61 million) and after adjusting for the Vendor's Pre-Completion Restructuring, the pro forma total shareholders' deficit of AAAGL Group as at 31 December 2023 is RM970.78 million (equivalent to approximately USD224.93 million*).*

Note:-

** Based on Bank Negara Malaysia's closing middle exchange rate of USD1 : RM4.3160 as at the LPD.*

The shareholders' deficit and the effects of the Vendor's Pre-Completion Restructuring have been considered in determining the AAAGL Purchase Consideration. In order to derive the adjusted net assets value / valuation of AAAGL, the Valuer has derived the valuation of its major operating subsidiaries / AOCs using the DCF method. The DCF method, amongst others, incorporates the future cash flows arising from the operating assets and liabilities in the AOCs as at 31 December 2023, whereas non-operating assets and liabilities as at 31 December 2023 are adjusted against the business enterprise values (being the value of the business attributable to all providers of finance) in arriving at the respective equity values (being the value of the business attributable to equity holders) of the AOCs.

A fair value upliftment is subsequently applied to the audited NA of AAAGL as at 31 December 2023, calculated based on:-
(a) the fair value of AAAGL's investment stake in the AOCs; and
(b) the fair value of AAAGL's indirect investment stake in the AOCs, based on the adjusted book value of intermediate holding companies after incorporating the fair value of the AOCs.

The adjusted net assets value / valuation of AAAGL has also included the effects from the Vendor's Pre-Completion Restructuring.

In arriving at the valuation for the equity interest in AAAGL (being an investment holding company), the Valuer has considered valuation of AAAGL's investments in its major operating subsidiaries / AOCs, namely TAA, PAA and IAA, which are low-cost airline companies operating from Thailand, the Philippines and Indonesia respectively. No valuation was performed for CAA which has only commenced its business in Cambodia in May 2024.

For the valuation of TAA, PAA and IAA, the Valuer has considered a number of valuation approaches and adopted the DCF method of valuation as the primary method using the 5-year financial projections of TAA, PAA and IAA from 1 January 2024 to 31 December 2028 together with the underlying bases and assumptions.

The DCF method focuses on the expected cash flows of the subject companies and hence, accords recognition of the subject companies' anticipated economic potential or value.

The DCF method entails the discounting of the future cash flows to be generated from the subject companies at specified discount rates to arrive at their range of present values, after taking into account the nature, timing and riskiness of the cash flows.

Based on the valuation of the AOCs and their respective investment holding companies as appraised by Deloitte, the Valuer has made an adjustment to the audited NA of AAAGL as at 31 December 2023 to uplift the fair value of AAAGL's direct investments and indirect investments (through investment holding companies) in the AOCs, namely TAA, PAA and IAA.

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The details of the valuation of the AOCs and their respective investment holding companies as well as the upliftment in fair value of AAAGL's investments are as follows:-

Valuation of the AOCs and their respective investment holding companies

Name of companies	Valuation based on 100% equity interest	
	Low range (USD million)	High range (USD million)
AOCs		
• TAA	697	875
• PAA	109	193
• IAA	42	85
Investment holding companies		
• AAV (with 100.00% equity interest in TAA)	701	879
• AA Com Travel Philippines Inc. (with 60.00% equity interest in AAI, which in turn holds 99.66% equity interest in PAA)	116	166
• AAI (with 99.66% equity interest in PAA)	220	304
• AAID (with 57.25% equity interest in IAA)	22	47

Upliftment in fair value of AAAGL's investments

AAAGL's investments	Range of equity value based on equity interest held by AAAGL	
	Low range (USD million)	High range (USD million)
• 20.95% equity interest in IAA	9	18
• 40.71% equity interest in AAV	285	358
• 100.00% equity interest in AA Com Travel Philippines Inc.	116	166
• 40.00% equity interest in AAI	88	121
• 46.25% equity interest in AAID	10	22
	508	685
Add: Investment in convertible bond issued by AAI[(1)]	25	25
Less: Adjusted carrying amount of AAAGL's investments as at 31 December 2023[(2)]	(594)	(594)
Upliftment in fair value of AAAGL's investments	**(61)**	**116**

Notes:-

(1) In May 2013, AAI issued USD25 million redeemable, unsecured convertible bonds to AAAGL. The bonds bear interest of 6% per annum.

(2) The carrying amount of AAAGL's investments as at 31 December 2023 has been adjusted to reflect the novation of perpetual capital securities in IAA held by AAB to AAAGL for a consideration of RM1,090.58 million.

The low range and high range of valuation of AAAGL and the AOCs are derived based on the range of discount rates adopted for each AOC as set out in the table below.

A summary of the key bases and assumptions used in the DCF method of valuation is as follows:-

- Where applicable, the Valuer will make a reference to FYE 31 December 2019 as a base year in analysing the projections of each AOC, as the FYE 31 December 2019 represents the financial performance of the AOC prior to the COVID-19 pandemic.

	TAA	**PAA**	**IAA**
Expected contribution as a percentage of the total projected revenue between FY2024 and FY2028 (approximately)			
• Passenger revenue	99.0%	99.0%	98.0%
• Freight services revenue	1.0%	1.0%	2.0%
Expected CAGR of the total revenue (approximately)			
• Between FY2024 and FY2028	11.0%	15.0%	21.0%
• Between FY2019 and FY2028	5.0%	11.0%	14.0%
Financial years in which unutilised tax losses are expected to be utilised and offset against projected earnings before interest and tax	FY2024 to FY2027	FY2024 to FY2025	FY2024 to FY2027
Assumed tax rate (based on respective country's statutory tax rate) for tax expenses in subsequent years	20.0% from FY2028 onwards	25.0% from FY2026 onwards	22.0% from FY2028 onwards
Projected capital expenditure for non-aircraft operating assets as a percentage of the total projected revenue between FY2024 and FY2028 (approximately)	0.2%	2.0%	1.0%
Terminal year growth rate (in perpetuity) for the projected cash flows after FY2028[(1)] (approximately)	1.0%	3.0%	3.0%
Discount rate / Weighted average cost of capital[(2)]	12.0% to 14.5%	17.0% to 19.0%	17.5% to 19.0%

Notes:-

(1) Terminal value comprises more than half of the valuation of TAA, PAA and IAA, given their respective management's plan to grow their operations via increased fleet size and flight frequency, and introduction of new routes across the projection period from FY2024 to FY2028. Their operations are expected to achieve a stable state by FY2028, and thereafter, grow in perpetuity at a nominal growth rate based on the long-term inflation rates of the respective countries in which TAA, PAA and IAA operate.

(2) The discount rate / weighted average cost of capital includes the following additional risk premium:-

(a) size premium for PAA and IAA, which represents the additional risks assumed by investors for investing in small firms; and

(b) company-specific risk premium, which represents a risk premium attributable to the specific company. It is designed to account for additional risk factors which may not be appropriate or possible to adjust in the cash flows, for example, business cycles, volatility of earnings or cash flows.

Based on the expert's report on the fairness of the AAAGL Purchase Consideration as set out in Appendix VII of this Circular, WYNCORP has opined that the AAAGL Purchase Consideration is fair from financial point of view, after taking into consideration the following:-

(i) the rationale for the Proposed AAAGL Acquisition as set out in Section 8.3, Part A of this Circular;

(ii) the overview and outlook of the aviation industry as set out in Section 9.1, Part A of this Circular and prospects of the New Aviation Group as set out in Section 9.2, Part A of this Circular;

(iii) the AAAGL Purchase Consideration amounting to RM3,000.00 million falls within the range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at the valuation date of 31 December 2023, based on the valuation undertaken by Deloitte as set out in the Valuation Letter attached in Appendix VI(A) of this Circular; and

(iv) the AAAGL Purchase Consideration (RM3,000.00 million) represents a discount of approximately RM285.50 million or 8.69% to the mid-point of the valuation range for AAAGL (being RM3,285.50 million).

(iv) the AAAGL Purchase Consideration (RM3,000.00 million) represents a discount of approximately RM285.50 million or 8.69% to the mid-point of the valuation range for AAAGL (being RM3,285.50 million) and the Total Purchase Consideration (RM6,800.00 million) represents a discount of approximately RM647.00 million or 8.69% to the aggregate of the mid-point of the valuation range for AAAGL and AAB (being RM7,447.00 million).

4.4 Basis and justification for the issue price of the Consideration Shares

The issue price of RM1.30 per Consideration Share was determined after taking into consideration the 5-day VWAP of our Shares up to and including 15 April 2024, being the latest practicable date used to finalise the negotiation on the issue price of the Consideration Shares prior to the date of signing of the SSPAs and the announcement of the Proposals and Proposed Granting of Subscription Options ("**Announcement LPD**").

In arriving at the issue price of the Consideration Shares, our Company had taken into consideration the following:-

(i) the issue price of RM1.30 per Consideration Share:-

(a) is equivalent to the closing market price of our Shares as at the Announcement LPD;

(b) is equivalent to the 5-day VWAP of our Shares up to and including the Announcement LPD; and

(c) represents a premium of approximately 348.28% over the unaudited consolidated NA of our Company as at 31 December 2023 of RM0.29 per Share; and

(ii) the issuance of the Consideration Shares to fully satisfy the AAAGL Purchase Consideration allows our Group to be able to complete the Proposed AAAGL Acquisition whilst conserving our cash for working capital requirements.

For information purposes, the issue price of the Consideration Shares represents a premium of approximately 4.84% over the closing market price of our Shares as at 24 April 2024, being the last trading day prior to the date of the AAAGL SSPA ("**LTD**") of RM1.24, a premium of approximately 7.44% over the 5-day VWAP of our Shares up to and including the LTD of RM1.21 (Source: Bloomberg) and a premium of 400.00% over the audited consolidated NA of our Company as at 31 December 2023 of RM0.26 per Share.

4.5 Ranking of the Consideration Shares

The Consideration Shares shall, upon allotment and issuance, rank equally in all respects with the then existing issued Shares, save and except that the holder of the Consideration Shares shall not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to our Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the Consideration Shares.

For the avoidance of doubt, the Consideration Shares will be allotted and issued after the Warrants Entitlement Date and hence, there will be no Warrants to be issued in respect of the Consideration Shares.

4.6 Listing and quotation of the Consideration Shares

Bursa Securities had, vide its letter dated 11 September 2024, resolved to approve the listing and quotation of the Consideration Shares on the Main Market of Bursa Securities. The approval of Bursa Securities is subject to the conditions as set out in Section 13, Part A of this Circular.

4.7 Source of funding

The AAAGL Purchase Consideration will be satisfied entirely via the allotment and issuance of the Consideration Shares.

4.8 Liabilities to be assumed

Save for the liabilities of the AAAGL Group which will be assumed by our Company upon completion of the Proposed AAAGL Acquisition, there are no other liabilities, including contingent liabilities and guarantees, to be assumed by our Company arising from the Proposed AAAGL Acquisition.

4.9 Additional financial commitment

In view that the AAAGL Group is already in operation, our Company does not expect to incur any additional material financial commitment to put the business of the AAAGL Group on-stream following the completion of the Proposed AAAGL Acquisition.

4.10 Original cost and date of investment of the Vendor in AAAGL

The original cost and date of investment of the Vendor in AAAGL are as follows:-

Date of investment	Number of shares	Cost of investment (RM'000)
30 August 2018	5,270,000	19,990

4.11 Proposed Distribution by Capital A

The AAAGL Purchase Consideration of RM3,000.00 million will be satisfied entirely via the allotment and issuance of 2,307,692,307 Consideration Shares at an issue price of RM1.30 each.

Capital A intends to distribute 1,692,307,692 Consideration Shares ("**Distribution Shares**") to the entitled shareholders of Capital A based on their respective shareholdings in Capital A on an entitlement date to be determined later pursuant to the Proposed Distribution by Capital A.

The Distribution Shares will be allotted and issued to the entitled shareholders of Capital A and credited directly into their central depository accounts based on the proportion of their shareholdings in Capital A on the entitlement date for the Proposed Distribution by Capital A. The remaining Consideration Shares will be allotted and issued to Capital A.

The actual shareholdings in AAX held by Capital A and PACs after the Proposed Private Placement and/or Proposed AAAGL Acquisition (including the Proposed Distribution by Capital A) would depend on the issue price of the Placement Shares to be determined later.

Pursuant to a letter of undertaking dated 6 June 2024 ("**Letter of Undertaking**"), Capital A and PACs have irrevocably and unconditionally undertaken that in the event any circumstances or potential circumstances arise which will result in Capital A and PACs triggering any take-over obligations in the Rules at any given time throughout and/or upon completion of the Proposals and Proposed Distribution by Capital A, they will, or they will procure member(s) of the group of persons acting in concert to sell, transfer, give or otherwise dispose of our Shares or ordinary shares in Capital A held by it / them before completion of the Proposed Private Placement and/or Proposed Distribution by Capital A, as the case may be, so as to not trigger the take-over obligations.

The PACs (as identified by Capital A in the Letter of Undertaking) and their shareholdings in Capital A as at the LPD are as follows:-

	Direct		Indirect	
Name	**No. of shares**	**%(1)**	**No. of shares**	**%(1)**
Tan Sri Tony Fernandes	2,000,000	0.05	1,025,485,082(2)	23.81
Datuk Kamarudin	2,000,000	0.05	1,025,485,082(2)	23.81
AAB	-	-	-	-
Tune Group Sdn Bhd	-	-	-	-
Tune Live	509,000,000	11.82	-	-
Tune Air	516,485,082	11.99	-	-

Notes:-
(1) Based on 4,306,905,831 issued shares of Capital A as at the LPD.
(2) Deemed interested by virtue of his interests in Tune Live and Tune Air pursuant to Section 8 of the Act.

The pro forma changes in their shareholdings in our Company after the Proposals and Proposed Granting of Subscription Options are set out in Section 11.2, Part A of this Circular.

4.12 Amount owing to/from Capital A Group Post Disposal

As at 31 August 2024 and after adjusting for the Vendor's Pre-Completion Restructuring, the AAAGL Group has non-trade amount owing to the Capital A Group Post Disposal of RM96.22 million and this amount is estimated to remain unchanged until the completion of the Proposed AAAGL Acquisition. The non-trade amount owing to the Capital A Group Post Disposal of RM96.22 million mainly comprise advances received by the AAAGL Group for the acquisition of 60% equity interest in AAI by AA Com Travel Philippines Inc., investment into the airline operations in Cambodia, repayment of term loan and interests as well as general working capital requirements.

It is the intention of the parties to the AAAGL SSPA that the non-trade amount owing between the AAAGL Group and Capital A Group Post Disposal on the date of completion of the Proposed AAAGL Acquisition shall be fully settled within 1 year following from the completion of the Proposed AAAGL Acquisition.

5. DETAILS OF THE PROPOSED AAB ACQUISITION

The Proposed AAB Acquisition entails the acquisition of the entire AAB Equity Interest from Capital A for a purchase consideration of RM3,800.00 million to be satisfied entirely via the Debt Settlement in accordance with the terms of the AAB SSPA.

Subject to the terms of the AAB SSPA, the Vendor has agreed to sell and the Purchaser has agreed to purchase the entire AAB Equity Interest free from encumbrances (save as disclosed in the Vendor's disclosure letter in respect of the AAB SSPA[(1)]) and together with all rights and advantages attaching to them as at completion of the Proposed AAB Acquisition (including the right to receive all dividends and distributions declared, made or paid on or after the said completion).

Note:-

(1) On 21 August 2024, AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, had entered into definitive agreements with aircraft lessors and private credit funds for the issuance by AirAsia RB 1 Ltd, of Regulation S (under the US Securities Act) secured bonds of up to USD443.0 million, due September 2026 and August 2028, with AAB as a third party security provider, and both AAB and Capital A as corporate guarantors. Bank Negara Malaysia has vide its letters dated 26 March 2024 and 4 July 2024 approved the issuance of the bonds together with the proposed security under Bank Negara Malaysia's Foreign Exchange Policy. The bonds were issued on 23 August 2024.

As part of the terms of the issuance of the bonds, there will be a first ranking share charge over 49% of the shares of AAB held by our Company upon completion of the Proposed Acquisitions.

The salient terms of the bonds are set out in Appendix II(C) of this Circular. Further information on the bonds is set out in Section 10 of Appendix V of this Circular.

Upon completion of the Proposed AAB Acquisition, AAB will become a wholly-owned subsidiary of our Company.

The salient terms of the AAB SSPA are set out in Appendix II(B) of this Circular.

5.1 Background information on AAB

AAB was incorporated in Malaysia on 20 December 1993 under the Companies Act, 1965 as a private limited company under the name of AirAsia Sdn Bhd and is deemed registered under the Act. AAB was converted into a public limited company on 8 June 2004. AAB was listed on the Main Market of Bursa Securities on 22 November 2004. Subsequently, pursuant to an internal reorganisation undertaken by AAB by way of a members' scheme of arrangement under Section 366 of the Act, AAB was delisted and its listing status on the Main Market of Bursa Securities was assumed by Capital A on 16 April 2018.

As at the LPD, the issued share capital of AAB is RM2,515,673,745 comprising 3,341,974,080 ordinary shares in AAB. As at the LPD, AAB is a direct wholly-owned subsidiary of Capital A, being the Vendor for the Proposed AAB Acquisition. The background information on the Vendor is set out in Section 4.2, Part A of this Circular.

The directors of AAB as at the LPD are Datuk Kamarudin, Riad Asmat, Jasmindar Kaur A/P Sarban Singh and Dato' Captain Fareh Ishraf Mazputra bin Ahmad Fairuz.

The principal activity of AAB is providing air transport services from Malaysia.

A summary of the financial information of the AAB Group for the FYE 31 December 2021, FYE 31 December 2022, FYE 31 December 2023 and 6-month FPE 30 June 2024 are as follows:-

	Audited			**Unaudited**
	FYE 31 December			**FPE 30 June**
	2021	**2022**	**2023**	**2024**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Revenue	691,358	3,784,775	6,420,374	4,133,437
(Loss) / Profit after taxation	(2,473,766)	(1,782,331)	3,620,868	(208,794)
(Loss) / Profit after taxation attributable to the owners of AAB	(2,473,766)	(1,782,331)	3,620,868	(208,794)
Shareholders' deficit	(3,460,239)	(5,208,655)[(1)]	(1,504,694)[(1)]	(1,825,633)
Total borrowings and lease liabilities	13,049,438	14,749,122[(2)]	16,283,292[(2)]	16,444,286
No. of shares in issue ('000)	3,341,974	3,341,974	3,341,974	3,341,974
(LPS) / EPS attributable to the owners of AAB (RM)	(0.74)	(0.53)	1.08	(0.06)
Net liabilities per share attributable to the owners of AAB (RM)	(1.04)	(1.56)	(0.45)	(0.55)
Current ratio (times)	0.43	0.41	1.07	1.00
Gearing (times)	n/a[(3)]	n/a[(3)]	n/a[(3)]	n/a[(3)]

Notes:-

(1) *The increase in shareholders' deficit of the AAB Group from RM3,460.24 million as at 31 December 2021 to RM5,208.66 million as at 31 December 2022 was mainly due to the loss after taxation of RM1,782.33 million recorded for the FYE 31 December 2022 as the aviation industry was adversely affected by the COVID-19 pandemic. The shareholders' deficit of the AAB Group decreased from RM5,208.66 million as at 31 December 2022 to RM1,504.69 million as at 31 December 2023, mainly due to the profit after taxation of RM3,620.87 million recorded for the FYE 31 December 2023 resulting from a one-off gain from the disposal of "AirAsia" brand of RM4,500.00 million and higher revenue achieved during the financial year.*

(2) *The increase in total borrowings and lease liabilities of the AAB Group from RM13,049.44 million as at 31 December 2021 to RM14,749.12 million as at 31 December 2022 was mainly due to additional lease liabilities and financing facilities obtained during the financial year. The total borrowings and lease liabilities of the AAB Group increased further to RM16,283.29 million as at 31 December 2023, mainly due to additional lease liabilities and financing facilities obtained during the financial year.*

(3) *n/a denotes not applicable.*

Further information on AAB is set out in Appendix V of this Circular.

5.2 Basis and justification for the AAB Purchase Consideration

The AAB Purchase Consideration was arrived at on a willing-buyer willing-seller basis after a series of negotiations with the Vendor and taking into consideration, amongst others, the range of valuation for the entire AAB Equity Interest of between RM3,721.00 million and RM4,602.00 million as at the valuation date of 31 December 2023 based on the valuation undertaken by Deloitte.

After extensive negotiations with the Vendor, the parties to the AAB SSPA have determined the AAB Purchase Consideration to be RM3,800.00 million, after taking into consideration the following:-

(i) the recovery phase of the aviation industry;

(ii) providing flexibility for the AAB Group to pursue its growth initiatives; and

(iii) Capital A and its shareholders' continued exposure in the business of the New Aviation Group via our Shares to be issued pursuant to the Proposed Acquisitions and Proposed Distribution by Capital A.

In justifying the AAB Purchase Consideration, our Board (save for our Interested Directors) has taken into consideration the following:-

(i) rationale and benefits of the Proposed Acquisitions as set out in Section 8.3, Part A of this Circular;

(ii) outlook of the aviation industry and prospects of the Target Companies and the New Aviation Group as set out in Section 9, Part A of this Circular;

(iii) the AAB Purchase Consideration falls within the abovementioned range of valuation for the entire AAB Equity Interest of between RM3,721.00 million and RM4,602.00 million as at 31 December 2023 as set out in the Valuation Letter as attached in Appendix VI(A) of this Circular.

In arriving at the valuation for the equity interest in AAB, the Valuer has considered a number of valuation approaches and adopted the DCF method of valuation as the primary method using the 5-year financial projections of AAB from 1 January 2024 to 31 December 2028 together with the underlying bases and assumptions.

The DCF method focuses on the expected cash flows of the subject company and hence, accords recognition of the subject company's anticipated economic potential or value.

The DCF method entails the discounting of the future cash flows to be generated from the subject company at specified discount rates to arrive at its range of present values, after taking into account the nature, timing and riskiness of the cash flows.

The low range and high range of valuation of AAB are derived based on the range of discount rates adopted for AAB as set out in the table below.

A summary of the key bases and assumptions used in the DCF method of valuation is as follows:-

- Where applicable, the Valuer will make a reference to FYE 31 December 2019 as a base year in analysing the projections of AAB, as the FYE 31 December 2019 represents the financial performance of AAB prior to the COVID-19 pandemic.

	AAB
Expected contribution as a percentage of the total projected revenue between FY2024 and FY2028 (approximately)	
• Passenger revenue	99.0%
• Freight services revenue	1.0%
Expected CAGR of the total revenue (approximately)	
• Between FY2024 and FY2028	13.0%
• Between FY2019 and FY2028	6.0%
Financial years in which unutilised tax losses are expected to be utilised and offset against projected earnings before interest and tax	FY2024 to FY2028
Assumed tax rate (based on Malaysia's statutory tax rate) for tax expenses in subsequent years	24.0% in the terminal period
Projected capital expenditure for non-aircraft operating assets as a percentage of the total projected revenue between FY2024 and FY2028 (approximately)	1.0%

	AAB
Terminal year growth rate (in perpetuity) for the projected cash flows after FY2028(1) (approximately)	2.0%
Discount rate / Weighted average cost of capital(2)	12.5% to 14.5%

Notes:-

(1) Terminal value comprises more than half of the valuation of AAB, given its management's plan to grow its operations via increased fleet size and flight frequency, and introduction of new routes across the projection period from FY2024 to FY2028. Its operations are expected to achieve a stable state by FY2028, and thereafter, grow in perpetuity at a nominal growth rate based on the long-term inflation rates of the country in which AAB operates.

(2) The discount rate / weighted average cost of capital includes company-specific risk premium, which represents a risk premium attributable to the specific company. It is designed to account for additional risk factors which may not be appropriate or possible to adjust in the cash flows, for example, business cycles, volatility of earnings or cash flows.

For information purposes, the audited total shareholders' deficit of AAB Group as at 31 December 2023 is RM1,504.69 million and after adjusting for the Vendor's Pre-Completion Restructuring, the pro forma total shareholders' deficit of AAB Group as at 31 December 2023 is RM3,882.69 million.

The shareholders' deficit and the effects of the Vendor's Pre-Completion Restructuring have been considered in determining the AAB Purchase Consideration. The Valuer has derived the valuation of AAB (the main operating entity within the AAB Group) using the DCF method. The DCF method, amongst others, incorporates the future cash flows arising from the operating assets and liabilities in AAB as at 31 December 2023, whereas non-operating assets and liabilities as at 31 December 2023 are adjusted against the business enterprise value in arriving at the equity value of AAB. The valuation of AAB has also included the effects from the Vendor's Pre-Completion Restructuring.

(iv) the AAB Purchase Consideration (RM3,800.00 million) represents a discount of approximately RM361.50 million or 8.69% to the mid-point of the valuation range for AAB (being RM4,161.50 million) and the Total Purchase Consideration (RM6,800.00 million) represents a discount of approximately RM647.00 million or 8.69% to the aggregate of the mid-point of the valuation range for AAAGL and AAB (being RM7,447.00 million).

Further to the issuance of the Valuation Letter on 25 July 2024, Deloitte has evaluated the impact of issuance of the bonds (details as set out in Section 10 of Appendix V of this Circular) by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, particularly on the valuation of the entire AAB Equity Interest. Based on the Valuer's Assessment Letter as attached in Appendix VI(B) of this Circular, the range of valuation for the entire AAB Equity Interest after the issuance of the bonds is between RM3,735.00 million and RM4,563.00 million (mid-point of RM4,149.00 million), which represents a variance of less than 1% to the range of valuation as set out in the Valuation Letter. In addition, the variance represents about 1% or less to the AAB Purchase Consideration. Hence, the impact of the issuance of the bonds to the valuation of the entire AAB Equity Interest is deemed immaterial and no variation to the AAB Purchase Consideration or other terms in the AAB SSPA has been made.

5.3 Source of funding

The AAB Purchase Consideration will be satisfied entirely via the Debt Settlement. Pursuant to the Debt Settlement, our Company will assume an amount of RM3,800.00 million[(1)] owing by Capital A to AAB.

Note:-
(1) Being part of the non-trade amount owing by Capital A to AAB. Further details of the non-trade amount owing by Capital A to AAB are as set out in Section 5.8, Part A of this Circular.

In view that AAB will become a wholly-owned subsidiary of our Company upon completion of the Proposed AAB Acquisition, there is no immediate need to repay / settle the amount owing by our Company to AAB arising from the Debt Settlement. Hence, our Company intends to repay / settle such amount owing to AAB using cash flows from our business operations and/or dividend income from other AOCs (including AAB) when our cash flow position permits. Alternatively, such amount owing to AAB may also be set off against dividends which may be declared by AAB to our Company in the future.

5.4 Liabilities to be assumed

Save for the liabilities of the AAB Group which will be assumed by our Company upon completion of the Proposed AAB Acquisition, there are no other liabilities, including contingent liabilities and guarantees, to be assumed by our Company arising from the Proposed AAB Acquisition.

5.5 Additional financial commitment

In view that the AAB Group is already in operation, our Company does not expect to incur any additional material financial commitment to put the business of the AAB Group on-stream following the completion of the Proposed AAB Acquisition.

5.6 Original cost and date of investment of the Vendor in AAB

The original cost and date of investment of the Vendor in AAB are as follows:-

Date of investment	Number of shares	Cost of investment (RM'000)
16 April 2018	3,341,974,080	8,023,268

5.7 Vendor's Pre-Completion Restructuring

Prior to the completion of the Proposed Acquisitions, Capital A and its group of companies will undertake an internal restructuring exercise which entails the following:-

(i) AAX Stake Transfer; and

(ii) the streamlining of intercompany debts amongst Capital A, the AAAGL Group and AAB Group by way of reassignment of intercompany debts and offsetting arrangements which involves the following:-

    (a) AAAGL Debt Novation where Capital A will assume an aggregate amount of RM2,820.58 million owing by AAAGL to AAB, replacing AAAGL as the debtor, and resulting in Capital A owing the said sum to AAB. The aggregate amount of RM2,820.58 million owing by AAAGL to AAB arises from the following:-

        (1) novation of amounts owing by AAAGL's subsidiaries to AAB of RM1,730.00 million to AAAGL by its subsidiaries; and

(2) novation of perpetual capital securities in IAA held by AAB to AAAGL for a consideration of RM1,090.58 million;

(b) waiver by Capital A of amount due from AAAGL of RM3,468.58 million which will be recognised as capital contribution; and

(c) declaration of a dividend of RM3,468.58 million by AAB to Capital A, which is proposed to be set off against amount owing by Capital A to AAB (including the amount owing to AAB of RM2,820.58 million arising from the AAAGL Debt Novation), subject to the receipt of the written consent from the relevant lenders / financiers of AAB.

5.8 Amounts owing to/from the Capital A Group Post Disposal

As at 31 August 2024 and after adjusting for the Vendor's Pre-Completion Restructuring, the AAB Group has non-trade amount owing from the Capital A Group Post Disposal of RM4,028.86 million (of which RM3,800.00 million will be assumed by our Company pursuant to the Debt Settlement).

The non-trade amount owing from the Capital A Group Post Disposal of RM4,028.86 million comprise:-

(i) cash consideration receivable by AAB from Capital A for the disposal of "AirAsia" brand to Capital A pursuant to an intellectual property assignment agreement dated 27 June 2023 entered into between AAB (as seller), Capital A (as purchaser) and Brand AA Sdn Bhd (as nominee of Capital A), wherein AAB assigned all its rights, titles and interests in and to the "AirAsia" brand to Brand AA Sdn Bhd, being a nominee of Capital A for a cash consideration of RM4,500.00 million effective from the date of the agreement in accordance with the terms and conditions contained therein;

(ii) cash consideration receivable by AAB from Capital A for the AAX Stake Transfer for RM106.73 million; and offset by

(iii) net advances made by Capital A to AAB for working capital purposes.

Upon completion of the Proposed AAB Acquisition and the Debt Settlement, the non-trade amount owing from the Capital A Group Post Disposal to the AAB Group is estimated to be about RM255 million, after including AAB's payment of profit on the Capital A RCUIDS on behalf of Capital A until the completion of the Proposed AAB Acquisition. It is the intention of the parties to the AAB SSPA that the non-trade amount owing between the AAB Group and Capital A Group Post Disposal on the date of completion of the Proposed AAB Acquisition shall be fully settled within 1 year following the completion of the Proposed AAB Acquisition.

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6. DETAILS OF THE PROPOSED SHARE CAPITAL REDUCTION

The Proposed Share Capital Reduction entails the reduction of the issued share capital of our Company to RM100.00 million pursuant to Section 116 of the Act.

The Proposed Share Capital Reduction will give rise to a credit(1) which will be used to eliminate the accumulated losses of the New Aviation Group arising from the consolidation of accumulated losses of the Target Companies after the completion of the Proposed Acquisitions. Any balance credit after elimination of the accumulated losses will be credited to a reserve account which serves as additional credit buffer to set off any future losses, if allowed or for such other purposes as may be allowed under the relevant applicable laws, the Listing Requirements as well as the Constitution of our Company but excluding the diminution of liability in respect of unpaid share capital or payment to any Shareholders of any paid-up share capital. Save for the abovementioned purposes, the balance credit shall not be distributable without confirmation of the High Court.

Note:-

(1) Based on the pro forma effects of the Proposals and Proposed Granting of Subscription Options on the issued share capital of our Company as set out in Section 11.1, Part A of this Circular, the Proposed Share Capital Reduction will reduce the issued share capital of our Company from RM4,097.18 million to RM100.00 million, giving rise to a credit of RM3,997.18 million.

Our Board has decided to undertake the reduction of the issued share capital of our Company to RM100.00 million in order to trim the issued share capital as well as to fully eliminate the accumulated losses.

The Proposed Share Capital Reduction is intended to be implemented after the Proposed Issuance of Free Warrants, Proposed Private Placement and Proposed Acquisitions.

After the Proposed Issuance of Free Warrants, Proposed Private Placement and Proposed Acquisitions, our Company will have a total of up to 3,754,765,110 Shares (none of which are held as treasury shares) and up to 223,536,401 Warrants.

For the avoidance of doubt, the Proposed Share Capital Reduction:-

(i) will not result in any adjustment to the reference price of our Shares and Warrants;

(ii) will not give rise to any change in the total number of issued Shares and Warrants; and

(iii) will not result in any change in the number of Shares held by our Shareholders and Warrants held by the Warrants Holders.

An order by the High Court will be sought to confirm the Proposed Share Capital Reduction pursuant to Section 116 of the Act upon the approval being obtained from you for the Proposed Share Capital Reduction.

The Proposed Share Capital Reduction shall take effect upon lodgement of the sealed order granted by the High Court confirming the Proposed Share Capital Reduction with the Registrar of Companies pursuant to Section 116(6) of the Act.

The pro forma effects of the Proposed Share Capital Reduction are set out in Section 11, Part A of this Circular.

7. DETAILS OF THE PROPOSED GRANTING OF SUBSCRIPTION OPTIONS

The Proposed Granting of Subscription Options is undertaken in recognition of:-

(i) the Subscriber's past commitment to support and participate for an amount of up to RM50.00 million in our Company's previous fund-raising as set out in the circular to our Shareholders dated 10 May 2021 ("**Previous Fund-raising**"). The commitment was formalised through the execution of a share subscription agreement entered into between our Company and Garynma on 4 April 2022 ("**Previous Subscription Agreement**"). In the said share subscription agreement, our Company had agreed to grant an option for the Subscriber to subscribe for such number of Shares representing up to 15% of the enlarged total number of issued Shares (excluding treasury shares, if any) at any point of time during the 36-month subscription period commencing from the completion of a proposed rights issue to raise gross proceeds of up to RM300.00 million ("**Previous Subscription Option**");

(ii) our Company, with the demonstration of the Subscriber's commitment to support and participate in the Previous Fund-raising, had successfully completed our debt restructuring exercise (which took effect on 16 March 2022). The debt restructuring exercise was crucial for the survival and going concern of our Group and arising therefrom, our Group recorded other income of RM34,313.14 million for the 18-month FPE 31 December 2022; and

(iii) the Subscriber's rights to the Previous Subscription Option under the Previous Subscription Agreement.

However, subsequent to the completion of our debt restructuring exercise, our Company did not proceed with the Previous Fund-raising and the Previous Subscription Option was not implemented.

Our Company acknowledges the support and participation of the Subscriber in the Previous Fund-raising which have assisted our Group in navigating the challenges faced during the COVID-19 pandemic period. Hence, our Company proposes to undertake the Proposed Granting of Subscription Options, in place of the Previous Subscription Option to which the Subscriber is entitled.

Pursuant to the Previous Subscription Agreement, the issue price of any new Shares to be issued and allotted pursuant to the exercise of the Previous Subscription Option ("**Previous Subscription Shares**") was based on the higher of the (a) rights issue price of RM0.28 or (b) 25% of the 5-day VWAP of Shares up to and including the date immediately preceding any exercise of the Previous Subscription Option, subject to adjustment if any alteration is made to our share capital at any time during the 36-month subscription period of the Previous Subscription Option. For illustrative purposes, based on the 5-day VWAP of our Shares up to and including the LPD of RM1.32 (Source: Bloomberg), the issue price of the Previous Subscription Shares (if implemented) would have been RM0.33 (being the higher of RM0.28 and 25% of RM1.32), which is very low relative to the current market price of our Shares.

To facilitate the completion of the Proposals, the issue price of the Subscription Shares comprised in each Subscription Option will now be based on the closing market price of our Shares as at the last trading day prior to acceptance by the Subscriber of the grant of the relevant Subscription Option during a 24-month acceptance period, with a compensatory increase of the Subscription Option Period to 48 months after the completion of the Proposed Acquisitions.

On 26 July 2024, our Company had entered into the Subscription Option Agreement with the Subscriber for the Proposed Granting of Subscription Options. The salient terms of the Subscription Option Agreement are set out in Appendix III of this Circular.

7.1 Basis and number of Subscription Shares to be issued

The Proposed Granting of Subscription Options entails the granting by our Company to Garynma the rights to subscribe for such number of new Shares representing, in aggregate, 12%[(1)] of the total issued shares in our Company immediately after the completion of the Proposed Acquisitions (excluding treasury shares, if any) via 3 Subscription Options of 4% each. All the 3 Subscription Options will be granted by our Company to the Subscriber immediately after the completion of the Proposed Acquisitions.

<u>Note:-</u>

(1) *Our Board had initially proposed to grant to Garynma the rights to subscribe for such number of new shares representing, in aggregate, 15% of the total issued shares in AAG immediately after the completion of the Proposed Acquisitions (excluding treasury shares, if any). This is in line with the Previous Subscription Option (if implemented) where the Subscriber would have been able to subscribe for such number of shares representing up to 15% of the enlarged total number of issued shares in AAG after the completion of the Proposed Internal Reorganisation and Proposals (excluding treasury shares, if any) as the completion of the Proposed Internal Reorganisation and Proposals fall within the 36-month subscription period of the Previous Subscription Option.*

Following the abortion of the Proposed Internal Reorganisation and upon further deliberation between our Company and the Subscriber, both parties have agreed to reduce the Subscription Options from 15% in aggregate to 12% of the total issued shares in AAX immediately after the completion of the Proposed Acquisitions (excluding treasury shares, if any).

Each Subscription Option granted may be individually accepted in full or in part by the Subscriber at any point of time during a period of 24 months[(1)(2)] from the date of granting of the Subscription Option. Upon acceptance of a Subscription Option by the Subscriber, the Subscription Option may be exercised by the Subscriber at any point of time during a period of 48 months[(1)] from the date of granting of the Subscription Option to subscribe, in full or in part, for the Subscription Shares. Any Subscription Options not accepted or not exercised by the Subscriber within the stipulated period shall lapse and cease to be valid for any purpose.

<u>Notes:-</u>

(1) *As set out in Section 7, Part A of this Circular, the issue price of the Previous Subscription Shares was based on the higher of the (a) rights issue price of RM0.28 or (b) 25% of the 5-day VWAP of Shares up to and including the date immediately preceding any exercise of the Previous Subscription Option, subject to adjustment if any alteration is made to our share capital at any time during the 36-month subscription period of the Previous Subscription Option. Such pricing mechanism will allow the Subscriber to subscribe for new Shares at very low issue prices relative to the current market price of our Shares.*

To facilitate the completion of the Proposals, the issue price of the Subscription Shares comprised in each Subscription Option will now be based on the closing market price of our Shares as at the last trading day prior to acceptance by the Subscriber of the grant of the relevant Subscription Option during a 24-month acceptance period, with a compensatory increase of the Subscription Option Period to 48 months after the completion of the Proposed Acquisitions. The 24-month acceptance period given to the Subscriber allows it, to a certain extent, exercise its discretion in determining the issue price of the Subscription Shares comprised in each Subscription Option, subject always to the prevailing market price of our Shares at that point of time. This mechanism allows our Company to issue any Subscription Shares at the prevailing market price of our Shares during the 24-month acceptance period and without any discount. Hence, notwithstanding the discretion given to the Subscriber, this mechanism is expected to result in less dilution to our Shareholders as compared to the pricing mechanism of the Previous Subscription Option.

(2) *Upon acceptance of each Subscription Option by the Subscriber, our Company will make an announcement to Bursa Securities on the number and issue price of as well as the percentage represented by the Subscription Shares comprised in the Subscription Option accepted.*

The actual number of Subscription Shares to be issued will depend on the total number of Shares in issue after the completion of the Proposed Acquisitions and the number of Subscription Shares subscribed by the Subscriber during the Subscription Option Period.

The number of the Subscription Shares comprised in each Subscription Option will be subject to adjustment in accordance with the provisions of the Subscription Option Agreement if any alteration is made to the share capital of our Company at any time during the Subscription Option Period such as by way of rights issue, bonus issue, consolidation of shares or subdivision of shares.

The Subscription Option Agreement is conditional upon your approval having been obtained for the Proposed Granting of Subscription Options and the approval from Bursa Securities having been obtained for the listing and quotation of the Subscription Shares pursuant to the exercise of the Subscription Options on the Main Market of Bursa Securities. If any of these conditions are not fulfilled within 6 months from the date of the Subscription Option Agreement or such other period as mutually agreed, the Subscription Option Agreement shall not automatically terminate and shall subsist as long as it is required for our Company and Garynma to enter into bona fide discussions on such alternative arrangements (including entering into new transaction document(s)) as may be fair and reasonable with the effect of allowing the Subscriber to have continuing rights to subscribe for such number of AAX Shares under the Previous Subscription Agreement or the Subscription Option Agreement, as the case may be ("**New Transaction Document**").

For the avoidance of doubt, if any of the conditions precedent to the Subscription Option Agreement is not fulfilled, the Proposed Granting of Subscription Options will not be implemented. The Subscription Option Agreement and Previous Subscription Agreement shall however continue to subsist and shall be dealt with in accordance with the New Transaction Document. This is to preserve the rights and obligations of our Company and the Subscriber while both parties enter into bona fide discussions on and give effect to such alternative arrangement as may be fair and reasonable, having regard to the Subscriber's rights to the Previous Subscription Option under the Previous Subscription Agreement arising from its support and participation in our Previous Fund-raising.

Further, the Proposed Granting of Subscription Options will not be carried out in the event that the conditions precedent to the Subscription Option Agreement are fulfilled but the Proposed Acquisitions (but not the other proposals) are not completed. In such circumstance, our Company and Garynma shall enter into bona fide discussions on such alternative arrangements (including the New Transaction Document).

In respect of the timeline for the parties to enter into alternative arrangements (including the New Transaction Document), our Company and Garynma shall enter into such alternative arrangements as may be fair and reasonable as soon as practicable i.e. within 6 months from the commencement of bona fide discussions on such alternative arrangements, and if the parties are unable to conclude the bona fide discussions within 6 months, then the time period for such discussions shall automatically be extended for successive terms of 6 months each. Where applicable, approvals will be sought from our Shareholders and relevant regulatory authorities for the purposes of giving effect to the New Transaction Document.

Upon execution of the New Transaction Document, the Subscription Option Agreement shall terminate and no party shall thereafter have any claim, further rights or obligations against the other party under the Subscription Option Agreement save for any antecedent breach or breach of any provisions expressly stated to continue to apply after termination of the Subscription Option Agreement. Our Company and Garynma further agree that notwithstanding the termination of the Subscription Option Agreement, the Previous Subscription Agreement shall continue to subsist and its termination shall be dealt with in the New Transaction Document.

7.2 Background information on the Subscriber

Garynma was incorporated in Singapore as a private company limited by shares under the Singapore Companies Act 1967 on 2 June 2021 under the name of Garynma Investments Pte Ltd. Garynma is principally involved in the business of investment holding.

As at the LPD, Garynma has an issued share capital of SGD100, comprising 100 ordinary shares. The sole shareholder of Garynma is Cosima Investments Pte Ltd, which is wholly owned by Dato' Lim Kian Onn.

The directors of Garynma as at the LPD are Dato' Lim Kian Onn and Caryn Lim Su Yin.

7.3 Basis and justification for the issue price of the Subscription Shares

The issue price of the Subscription Shares comprised in each Subscription Option shall be the closing market price of our Shares as at the last trading day prior to acceptance by the Subscriber of the grant of the relevant Subscription Option[(1)]. For the avoidance of doubt, as each Subscription Option granted may be individually accepted in full or in part by the Subscriber at any point of time during a period of 24 months from the date of granting of the Subscription Option, the date of acceptance of each Subscription Option and hence, the issue price of the Subscription Shares comprised in each Subscription Option may be different.

<u>Note:-</u>

(1) As set out in Section 7.1, Part A of this Circular, the pricing mechanism under the Previous Subscription Option will allow the Subscriber to subscribe for new Shares at very low issue prices relative to the current market price of our Shares.

Accordingly, our Company and Garynma have agreed on the mechanism under the Subscription Option Agreement with:-

(a) a 24-month acceptance period given to the Subscriber to allow it, to a certain extent, exercise its discretion in determining the issue price of the Subscription Shares comprised in each Subscription Option, subject always to the prevailing market price of our Shares at that point of time. For this purpose, the closing market price of our Shares as at the last trading day prior to acceptance by the Subscriber of the grant of the relevant Subscription Option has been adopted as it reflects the prevailing market price of our Shares at that point of time; and

(b) a compensatory increase of the Subscription Option Period to 48 months after the completion of the Proposed Acquisitions.

This mechanism allows our Company to issue any Subscription Shares at the prevailing market price of our Shares during the 24-month acceptance period and without any discount. Hence, notwithstanding the discretion given to the Subscriber, this mechanism is expected to result in less dilution to our Shareholders as compared to the pricing mechanism of the Previous Subscription Option.

The issue price of the Subscription Shares will be subject to adjustment in accordance with the provisions of the Subscription Option Agreement if any alteration is made to the share capital of our Company at any time during the Subscription Option Period such as by way of rights issue, bonus issue, consolidation of shares, subdivision of shares, capital repayment or capital distribution.

7.4 Ranking of the Subscription Shares

The Subscription Shares shall, upon allotment and issuance, rank equally in all respects with the then existing issued Shares, save and except that the holder of the Subscription Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to our Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the Subscription Shares.

For the avoidance of doubt, the Subscription Shares will be allotted and issued after the Warrants Entitlement Date and hence, there will be no Warrants to be issued in respect of the Subscription Shares.

7.5 Listing and quotation of the Subscription Shares

Bursa Securities had, vide its letter dated 11 September 2024, resolved to approve the listing and quotation of the Subscription Shares on the Main Market of Bursa Securities. The approval of Bursa Securities is subject to the conditions as set out in Section 13, Part A of this Circular.

7.6 Use of proceeds from the issuance of Subscription Shares

The Proposed Granting of Subscription Options will not raise any immediate funds until such time the Subscriber subscribes for the Subscription Shares. The exact quantum of proceeds that may be received by our Company from the issuance of Subscription Shares will depend on the number of Subscription Shares subscribed by the Subscriber during the Subscription Option Period and the issue price of the Subscription Shares.

Strictly for illustrative purposes, assuming a total of 450,571,813 Subscription Shares are issued at the illustrative issue price of RM1.32 per Subscription Share, our Company will raise gross proceeds of up to approximately RM594.75 million.

The gross proceeds from the issuance of the Subscription Shares are intended to be allocated in the following proportion:-

Proposed use of proceeds	Allocation[(1)] (%)
(i) Repayment of borrowings, debentures and lease liabilities[(2)]	50.00
(ii) General working capital[(3)]	50.00
Total	**100.00**

Notes:-

(1) Notwithstanding the intended allocation above, our Company may allocate more than 50% of the gross proceeds from the issuance of the Subscription Shares to the repayment of borrowings, debentures and lease liabilities in order to meet these repayment obligations as and when they fall due.

(2) Upon completion of the Proposed Acquisitions, our Company will consolidate the borrowings, debentures and lease liabilities of the AAAGL Group and AAB Group. These include term loan facilities, pre-delivery payment financing and various lease liabilities in respect of aircraft and engines.

(3) This includes payment to lessors, suppliers, contractors, consultants and other creditors as well as defrayment of other operational and administrative expenses including payment of staff costs (such as salaries, bonuses, statutory contributions and other staff benefits), user charges, utilities, rental, travelling and accommodation expenses, maintenance and overhaul expenses and other office / operating expenses).

Any proceeds from the issuance of the Subscription Shares will be received as and when the Subscriber subscribes for the Subscription Shares during the Subscription Option Period. Accordingly, the intended allocation as disclosed above is indicative and based on our management's best estimate only. The exact details, breakdown and timing for use of such proceeds as well as the benefits arising therefrom cannot be determined at this juncture as these will depend on the timing of receipt of such proceeds as well as the actual operating and financing requirements of the New Aviation Group at the relevant time.

Pending the use of proceeds from the issuance of Subscription Shares, such proceeds shall be placed in interest-bearing deposits with licensed financial institutions and/or invested in short-term money market instruments, as our Board may deem fit. Any interests derived from the deposits with licensed financial institutions and/or gains derived from the short-term money market instruments will be used as additional funds to be used in the manner as abovementioned.

8. RATIONALE AND BENEFITS OF THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS

8.1 Proposed Issuance of Free Warrants

The Proposed Issuance of Free Warrants is undertaken to:-

(i) reward you for your continuous support towards our Group by enabling you to participate in convertible securities of our Company, which are tradable on the Main Market of Bursa Securities, without incurring any cost;

(ii) provide you with an opportunity to increase your equity participation in our Company at a pre-determined exercise price over the tenure of the Warrants, and to allow you to further participate in the future growth of the New Aviation Group when the Warrants are exercised;

(iii) provide the New Aviation Group with additional funds for its operating and financing requirements as and when the Warrants are exercised in the future without incurring interest expenses as compared to debt facilities; and

(iv) strengthen the capital base of the New Aviation Group by increasing the size of the shareholders' funds arising from the exercise of the Warrants and provide the New Aviation Group with greater flexibility in terms of the options available to meet its future funding requirements.

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8.2 Proposed Private Placement

The Proposed Private Placement is undertaken to strengthen the financial position of our Group amidst undertaking the Proposed Acquisitions, and to raise additional funds which shall be used in the manner as set out in Section 3.7, Part A of this Circular.

After due consideration of the various methods of fund-raising available to our Company as well as, amongst others, prevailing market conditions, size of the fund-raising and the debt capacity of our Company, our Board is of the view that the Proposed Private Placement is the most appropriate means to raise the funds required as it is expected to:-

(i) raise funds expeditiously and cost effectively as compared to a pro-rata issuance of securities such as a rights issue and without incurring interest expenses as compared to debt facilities;

(ii) allow our Company to potentially attract more local and/or international investors, thereby potentially widening our Shareholders' base;

(iii) increase the total number of Shares in issue which in turn may improve the trading liquidity of our Shares; and

(iv) enlarge the capital base of our Company thereby strengthening our financial position upon completion of the Proposed Private Placement.

8.3 Proposed Acquisitions

Upon completion of the Proposed Acquisitions, the New Aviation Group will house all the airline entities operating under the "AirAsia" brand (including "AirAsia X" brand) and the aviation-related businesses currently undertaken by our Group, AAAGL Group and AAB Group.

There will be 7 airlines operating under the enlarged aviation group, namely (1) 'Malaysia AirAsia' operated by AAB, (2) 'Thai AirAsia' operated by TAA, (3) 'Philippines AirAsia' operated by PAA, (4) 'Indonesia AirAsia' operated by IAA, (5) 'AirAsia Cambodia' operated by CAA, (6) 'AirAsia X' operated by our Company and (7) 'Thai AirAsia X' operated by TAAX. Each airline holds its respective airline operator certificates and these airline operator certificates will continue to be held separately by different entities within the New Aviation Group as each airline focuses on different destinations and flight routes which cater to the travelling needs from different groups of customers.

The Proposed Acquisitions present an opportunity to you to own a part of the New Aviation Group that will house award-winning airlines with over 22 years of established history and track record (which will operate and provide a full spectrum of short, medium and long-haul low-cost air transportation services, with domestic flights and international flights from Malaysia, Thailand, the Philippines, Indonesia and Cambodia to numerous destination countries) and to bear the risks and rewards associated with ownership of the enlarged aviation group amidst the anticipated recovery of international air traffic post COVID-19. The Proposed Acquisitions will allow our Company to consolidate the assets and liabilities[1] as well as earnings of all the abovementioned airlines entities operating under the "AirAsia" brand (including "AirAsia X" brand).

Note:-

(1) As set out in Section 11.3, Part A of this Circular, our Group will have a pro forma NA as at 31 December 2023 of RM574.97 million and total borrowings, debentures and lease liabilities as at 31 December 2023 of RM24,492.69 million upon completion of the Proposed Acquisitions.

The Proposed Acquisitions are expected to enable the New Aviation Group to achieve elevated synergistic benefits in 3 areas, i.e. (i) centralised decision-making, (ii) flexibility in fleet management and utilisation and (iii) more economies of scale and cost savings, which are expected to drive the business success of the enlarged aviation group as elaborated below:-

(i) Centralised decision-making

With the Proposed Acquisitions, our Group, AAAGL Group and AAB Group will be housed together, forming an enlarged aviation group. This allows for the streamlining of administrative, operational, reporting and decision-making processes through a centralised management and leadership within the New Aviation Group.

Following the completion of the Proposed Acquisitions, a centralised leadership is intended to be established under Bo Lingam as the Group Chief Executive Officer of the New Aviation Group and he will be assisted by a team of experienced key senior management team which comprises existing key senior management personnel of our Group, AAAGL Group and AAB Group, who have in-depth knowledge of the operations of the respective airlines. A centralised leadership will enable the consolidation of collaborations and business decision-making across all entities within the New Aviation Group and this will help rationalise the operations, improve efficiency across all business functions and processes, in addition to providing greater flexibility for the New Aviation Group to set the future business and strategic directions and business strategies.

In preparation for the Proposed Acquisitions to streamline aviation business functions and processes amongst the airlines in the New Aviation Group, key aviation business functions such as treasury, legal, human resources, airline operations, corporate communications, airline strategy, fleet, network, scheduling and regulatory affairs, safety, operational quality assurance, airport partnerships and incentives, aircraft leasing, maintenance and lease restructuring, route revenue, and airline marketing functions are being taken over by AAAMS. As at the LPD, AAB and AAAGL have entered into service agreements with AAAMS for these services. Similarly, AAX will be entering into a service agreement with AAAMS for these services in the near future, subject to our Company obtaining your mandate to enter into such recurrent related party transactions, if required. Prior to this, the airlines have appointed AirAsia SEA Sdn Bhd and/or AirAsia SEA Limited, both of which are subsidiaries of Capital A, to provide business functions for the operations of the airlines.

AAAMS is a wholly-owned subsidiary of AAAGL and will be part of the New Aviation Group after the Proposed Acquisitions. This arrangement enables enhanced efficiency as decision-making related to aviation business for all the airlines to be housed under the New Aviation Group will be centralised and eliminates tedious administrative procedures which are otherwise required for compliance with the requirements under the Listing Requirements in respect of recurrent related party transactions if the services are rendered by AirAsia SEA Sdn Bhd and/or AirAsia SEA Limited which will remain as subsidiaries of Capital A.

(ii) Flexibility in fleet management and utilisation

Generally, the airlines to be housed under the New Aviation Group adopt focused aircraft fleet operations whereby our Group operates medium and long-haul flights using widebody aircraft (i.e. A330-300 series aircraft), while the AAAGL Group and AAB Group operate short-haul flights using primarily narrowbody aircraft (i.e. A320-series aircraft). The aircraft leased and operated by each airline can only be shared between airlines by subleasing through wet lease arrangements, where an airline provides an aircraft together with the pilots and cabin crew to operate the aircraft. Due to lengthy administrative and decision-making processes, including adherence to the Listing Requirements particularly in areas of related party transactions, our Group, AAAGL Group and AAB Group have rarely entered into wet lease arrangements to cross utilise the aircraft in the past.

Under a centralised leadership and management, the New Aviation Group expects to increase cross utilisation of aircraft across the airlines through wet lease arrangements, subject to approval by the respective local aviation authorities in the countries where the New Aviation Group operates. With the housing of the airlines together forming the New Aviation Group, the administrative procedures and decision-making process will be simplified and the New Aviation Group will be more flexible in effectively and more conveniently deploying the suitable type of aircraft based on the prevailing needs from each airline within the enlarged aviation group, passenger volume and take-up rate. Consequently, this will ease operational processes and optimise the utilisation of the fleet of aircraft across airlines, which are expected to enhance the New Aviation Group's overall operational efficiency and cost management, and eventually benefit its financial performance.

The scheduling and deployment of aircraft under the enlarged aviation group can be arranged based on prevailing market demand to achieve optimal passenger loads in order to offer competitive flight ticket pricing while achieving reasonable profitability margin as well as potentially capture a higher market share for air travel within the Southeast Asia and Asia Pacific regions by organising more co-ordinated network plans as follows:-

(a) Right-sizing capacity based on demand

Due to the seasonality factor leading to peak travel periods for some of our Group's medium-haul routes (especially routes for holiday destinations), these medium-haul routes operated by our Group may face decreases in passenger volume during non-peak seasons. When a widebody aircraft is deployed with small passenger loads, it reduces the revenue per RPK and may impact profitability margin and affect the ability to offer competitive flight ticket pricing for that route. The flexibility for the New Aviation Group, after the Proposed Acquisitions, to schedule and deploy more narrowbody aircraft during non-peak seasons will allow it to rationalise on the reduced passenger loads with the use of narrowbody aircraft which has a smaller passenger capacity.

On the contrary, certain short-haul flights operated under the AAAGL Group and AAB Group may face seasonality increases in passenger volume during festive seasons which trigger back-to-hometown crowds for domestic flights, or sporadic increases in demand to popular international destinations such as Singapore, Bangkok and Bali. The flexibility for the New Aviation Group to schedule and deploy more widebody aircraft operated under the enlarged aviation group to cater to such increased demand will allow it to capitalise on sales opportunities on routes with slot constraints as a widebody aircraft has a larger passenger capacity than a narrowbody aircraft.

(b) Efficient aircraft deployment

Additionally, flexibility in aircraft deployment will allow the New Aviation Group to schedule and deploy aircraft according to the take-up rate of existing and new routes for profit maximisation whilst ensuring cost-efficiency.

Through more co-ordinated network plans, the New Aviation Group will be able to plan and organise its aircraft deployment and schedule more connecting flights (i.e. Fly-Thru services) to better connect short-haul networks (usually with high flight frequencies) to the medium and long-haul destinations (with lower flight frequencies). The increased number of connecting flights is expected to offer more convenience to the long-haul passengers to match their travelling schedule. This enables the New Aviation Group to potentially capture a higher market share for air travel.

Flexibility in fleet and network deployment is also envisioned to drive the growth of the New Aviation Group with the option to deploy narrowbody aircraft to new routes at the infancy stage, socialising new markets without excess capacity to flood the markets and only transitioning to full widebody capacity once the markets mature.

Moving forward, the New Aviation Group plans to continue to review its fleet plan from time to time and may order or lease more aircraft to respond to changes in the aviation industry and to enhance its air connectivity. As at the LPD, the airlines to be housed under the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035), providing the New Aviation Group with certainty for aircraft deliveries to meet its fleet replacement and expansion plans. Closer to the delivery and prior to the finalisation of lease documents where the aircraft will be tagged to an airline, the New Aviation Group has the flexibility to deploy the aircraft to any of its airlines based on the suitability and prevailing needs of each airline.

The access to the enlarged aviation group's collective orderbook is critical for our Group's long-term growth prospects, which is currently limited as a result of the necessary corporate exercises undertaken during the COVID-19 pandemic. At the height of the COVID-19 pandemic, our Group (i) downsized our aircraft orderbook consisting of A330neo aircraft and A321XLR aircraft and (ii) deferred delivery of the orderbook until 2026. While necessary at that time, our Group now faces limitation in our expansion prospects in the immediate term as world over, airlines recovery and by extent of such recovery, demand for additional aircraft capacity were on unparalleled scale.

The Proposed Acquisitions are envisioned to enable our Group to access immediate fleet growth prospects through AAB's existing orderbook, with delivery between 2024 and 2035. Aircraft deliveries from this orderbook are envisioned to be allocated to AOCs within the New Aviation Group as necessary to facilitate continued growth and expansion for all "AirAsia"-branded airlines including our Group, thereby averting a scenario of fleet stagnation and losing market share to growing competitors locally and regionally.

(iii) More economies of scale and cost savings

Potential interest savings and greater fund-raising capability: Despite sharing some common shareholders, our Group negotiated our lease contracts and lease facilities separately from the AAAGL Group and AAB Group, and our Group's credit track record was generally assessed independently from the AAAGL Group and AAB Group.

Our Group, as part of the enlarged aviation group following the completion of the Proposed Acquisitions, will be able to leverage on the combined credit track record of the New Aviation Group to negotiate for better credit terms for our future leasing contracts and lease facilities.

Further, after the completion of the Proposals, the New Aviation Group as an enlarged aviation group operating and providing a full spectrum of short, medium and long-haul low-cost air transportation services, coupled with its strengthened and stronger financial position, will have greater fund-raising capability to support its future business growth and expansion.

Joint sales and marketing activities: With a centralised leadership and management, the New Aviation Group can enhance its cross selling between short and medium-haul flights across its airlines through participation in joint marketing campaigns. This allows the New Aviation Group to maximise its advertising spend i.e. to achieve a wider consumer reach, ultimately resulting in a stronger marketing impact under the "AirAsia" brand and capture potentially more sales across the airlines and achieve cost savings.

Procurement of supplies: As at the LPD, the purchase of certain supplies (e.g. spare parts, consumables and chemicals) for most of the airlines under the AAAGL Group and AAB Group have been centralised through Asia Digital Engineering Sdn Bhd, a subsidiary of Capital A, to minimise direct purchases and negotiations with third party suppliers. Our Company is in negotiation with Asia Digital Engineering Sdn Bhd for similar arrangement. Following the completion of the Proposed Acquisitions, under a centralised leadership and management, the consolidation of procurement of supplies for our Group, AAAGL Group and AAB Group through Asia Digital Engineering Sdn Bhd will be further enhanced, allowing the New Aviation Group to leverage on the enlarged need for any common supplies to negotiate for better supply contract terms, in particular more competitive pricing and better credit terms, as well as for greater assurance to secure the volumes required.

Further, centralised procurement strategies allow the enlarged aviation group to better manage supply contracts and provides flexibility to effectively utilise the supplies based on the needs from each entity within the New Aviation Group. Consequently, this is expected to ease operational processes, minimise wastages and reduce inventory turnover rates which are expected to enhance the New Aviation Group's overall cost management, and eventually benefit its financial performance.

Further, the Proposed Acquisitions allow our Group to strengthen the leverage to continue to benefit from the already-present synergies from being part of a wider AirAsia Ecosystem which is critical to support our Group's business operations and growth. Since the commencement of our Group's business, our Group's close association with other entities within the AirAsia Group has allowed us to leverage on "AirAsia" brand (including "AirAsia X" brand) and AirAsia Ecosystem and hence, our Group does not need to invest heavily on building our own brand and infrastructure. Our Group, as part of the enlarged aviation group following completion of the Proposed Acquisitions, will gain stronger leverage and bargaining power to secure continuous usage of the "AirAsia" brand which is an established brand in the aviation industry, and to secure continuous collaborations and comprehensive support services from the AirAsia Ecosystem to run our airline operations effectively and in a cost-efficient manner. Without these benefits, our Group would face significant challenges in navigating through the competitive landscape of the aviation industry and securing long-term sustainability. Presently, through AirAsia MOVE app, together with the AirAsia Group's online web portal, www.airasia.com, our Group enjoys direct access to a wide market leveraging on the massive pool of users that were built over the years. In addition, a significant portion of our Group's revenue is derived from Fly-Thru services, i.e. connecting flights from the short-haul networks of the AAB Group.

For information purposes, the AirAsia Ecosystem encompasses multiple aspects of travel, lifestyle and aviation which support the airlines' business, including AirAsia Group's online sales channels, maintenance, repair and overhaul services, digital payment and financial services, cargo and logistics services, ground handling services, in-flight meal services and a shared services centre.

8.4 Proposed Share Capital Reduction

The Proposed Share Capital Reduction will:-

(i) enable our Company to rationalise the New Aviation Group's financial position by eliminating the accumulated losses arising from the consolidation of accumulated losses of the Target Companies after the completion of the Proposed Acquisitions to reflect more accurately the value of the underlying assets and the financial position of the New Aviation Group; and

(ii) enhance the financial profile of the New Aviation Group with its bankers, customers, suppliers, investors and other stakeholders following the elimination of the accumulated losses.

8.5 Proposed Granting of Subscription Options

The Proposed Granting of Subscription Options is undertaken in acknowledgement and recognition of the support and participation of the Subscriber in our Previous Fund-raising which have assisted our Group in navigating the challenges faced during the COVID-19 pandemic period as well as the Subscriber's rights to the Previous Subscription Option under the Previous Subscription Agreement, as further elaborated in Section 7, Part A of this Circular.

Further, any proceeds to be received by our Company from the issuance of Subscription Shares pursuant to the Subscription Options may be used to fund the New Aviation Group's working capital requirements.

9. INDUSTRY OUTLOOK AND PROSPECTS OF THE TARGET COMPANIES AND THE NEW AVIATION GROUP

9.1 Overview and outlook of the aviation industry

The industry’s air passenger traffic, measured in RPK, grew healthily in July 2024 while maintaining the trend of a smooth transition towards lower conventional figures. Volumes continued to soar above previous months and years. Yearly growth stood at 9.4% while 0.7% in month-on-month terms, based on seasonally adjusted data.

The supply of seats, measured in ASK, continued to grow, exemplified by an increase of 7.4% year-on-year. The load factor further improved, reaching 86%, following a positive streak that started in January of this year. Moreover, July 2024’s load factor resulted in 0.5 percentage points above the previous year, suggesting higher demand for air travel. In year-to-date terms, load factor marked 0.5 percentage points above the previous year’s. Despite the CrowdStrike IT outage on July 19, which affected global computers including those at airports and airlines, there was no noticeable negative impact on the industry.

Industry growth rates are gradually moderating, including in July. However, Asia Pacific airlines continue to lead in traffic growth. Particularly, the transition for Asia Pacific is prominent thanks to traffic surges from low volumes in 2023. It emphasizes the region’s presence and effect on the industry's total passenger traffic growth.

Air passenger market in detail – July 2024

	World share (% of industry RPKs in 2023) (%)	RPK (% year-on-year)	ASK (% year-on-year)	Passenger load factor (%)
Total market	**100.0**	**8.0**	**7.4**	**86.0**
Africa	2.1	6.6	5.8	75.0
Asia Pacific	31.7	12.0	9.8	83.4
Europe	27.1	7.2	7.0	88.2
Latin America	5.5	7.5	8.4	86.2
Middle East	9.4	6.1	5.5	84.0
North America	24.2	4.9	5.1	88.9

(Source: Air Passenger Market Analysis July 2024, IATA)

As of 2024, the airline industry can turn its back on the COVID-19-induced crisis. This is a remarkable rebound, considering the initial shock that saw RPKs drop by 93% in April 2020.

Domestic travel bounced back to the pre-COVID-19 level in the spring of 2023, while international routes did so only recently. Total traffic matched and surpassed 2019 numbers in February 2024. The global network, however, has evolved since 2019. China’s international traffic recovery has been slower due to the later easing of travel restrictions, economic uncertainties, and geopolitical tensions. Domestic traffic, on the other hand, has surged thanks to internal tourism, reaching record numbers. Moreover, traffic between Asia and Europe remains affected by the war in Ukraine.

Most regions are expected to climb above 2019 levels in 2024, and most countries will experience continuous growth. Connectivity to Asia Pacific should be fully restored this year. The anticipated increase in total passenger numbers for 2024 is 10.4% year-on-year or 11.6% in RPK.

Over the next 20 years, IATA expects world passengers to increase by 3.8% per year on average, resulting in over 4 billion additional passenger journeys in 2043 compared to 2023. European and North American markets will see a slower rise in demand, 2.3% and 2.7% per year respectively. Asia Pacific is anticipated to record the fastest rise in passenger numbers and to contribute to more than half of the net increase in global passenger numbers by 2043.

Region	CAGR (2023 - 2043), %	Additional passengers by 2043, million
Africa	3.7	179
Asia Pacific	5.3	2,750
Europe	2.3	656
Middle East	3.9	282
North America	2.7	659
Latin America & Caribbean	2.9	311
World	**3.8**	**4,154**

The region is also slated to experience solid economic growth and improving living standards, which will drive demand for air transport well beyond the global average. Gross domestic product ("**GDP**") in the Asia Pacific region will grow by 65% over the coming 20 years, and trips per capita should almost triple. As a result, nearly half of global passenger traffic will originate or depart from the region in 2043, as opposed to 34.1% in 2023. The larger share of the region in total global traffic comes at the expense of the US, Europe, and Latin America which shares will fall. The Middle East and Africa are likely to see stable shares of the global total.

IATA's baseline forecast comes with a large range of uncertainty that considers the upside and downside factors which could affect the industry's trajectory and air passenger demand. Favourable macro-economic conditions, such as the normalisation of supply chains and lower inflation rates, could potentially lead to an increase in demand. However, geopolitical tensions and conflicts, particularly the ongoing wars in Ukraine and the Middle East, pose substantial risks to the global economy. In addition, new climate policies could dampen the growth in demand for air travel over the coming decades. Overall, the balance of risks remains tilted to the downside, in the near-term but also in the longer term.

(Source: Global Outlook for Air Transport June 2024, IATA)

In 2024, the MAVCOM anticipates passenger traffic to reach between 93.9 million and 107.1 million passengers, reflecting a growth between 10% year-on-year and 25% year-on-year. This forecast signifies a recovery of up to 98% of 2019 levels. Domestic and international travel to China and the Association of Southeast Asian Nations (ASEAN) region will influence the recovery momentum.

In the tabling of the 2024 Budget, the government has allocated RM350.0 million to boost tourism promotion and activities to promote Malaysia as the top destination for international tourists. There will also be other initiatives to encourage more visitors from China and India, such as improving visa-on-arrival facilities, social visit passes, and multiple-entry visa offers.

(Source: Malaysian Aviation Industry Outlook December 2023, MAVCOM)

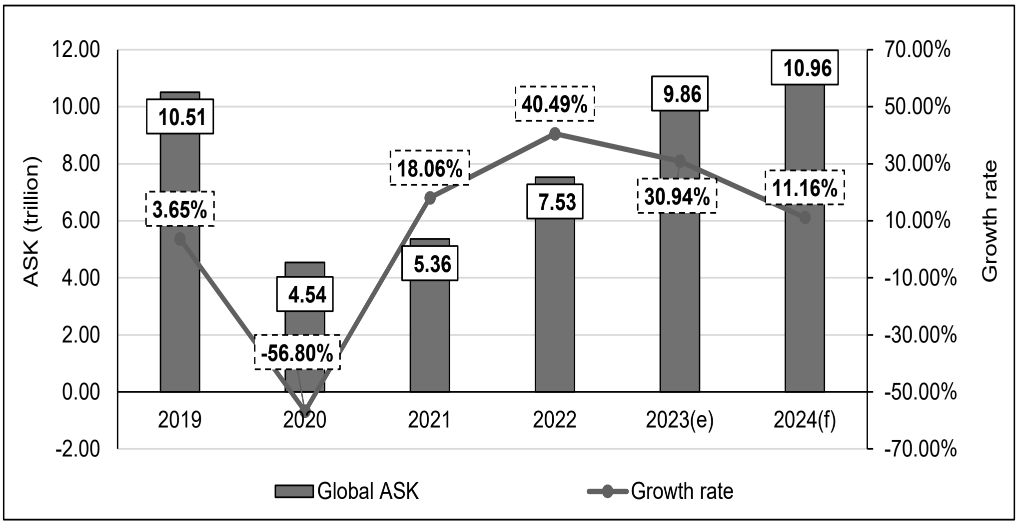
Supply conditions of the aviation industry

ASK measures flight capacity to transport passengers. It is calculated by multiplying the number of passenger seats available for sale and distance travelled.

As a result of decreased demand for air travel due to the COVID-19 pandemic, global ASK decreased year-on-year by 56.80% from 10.51 trillion in 2019 to 4.54 trillion in 2020. Following the gradual and eventual complete subsidence of the COVID-19 pandemic, the resumption of airline operations and improved demand for air travel have led to the restoration of operating aircraft, routes and frequencies by airlines in order to support the improved demand for air travel. From 2020 to 2022, global ASK recovered at a CAGR of 28.79% from 4.54 trillion to 7.53 trillion.

IATA estimates continued global ASK recovery in 2023, growing at a year-on-year rate of 30.94% to 9.86 trillion, and expects global ASK to return to pre-COVID-19 levels in 2024, reaching 10.96 trillion with a 11.16% growth rate.

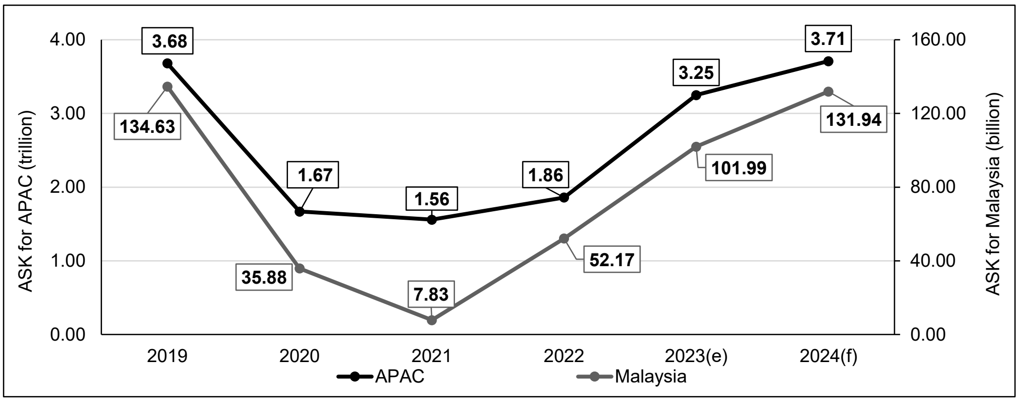
ASK (Global), 2019 – 2024(f)



Notes:-
- *e – estimate*
- *f – forecast*

*Sources: IATA, International Civil Aviation Organization ("**ICAO**"), SMITH ZANDER*

ASK (Asia Pacific (APAC) and Malaysia), 2019 – 2024(f)



Notes:-
- *e – estimate*
- *f – forecast*

Sources: IATA, ICAO, MAVCOM, SMITH ZANDER

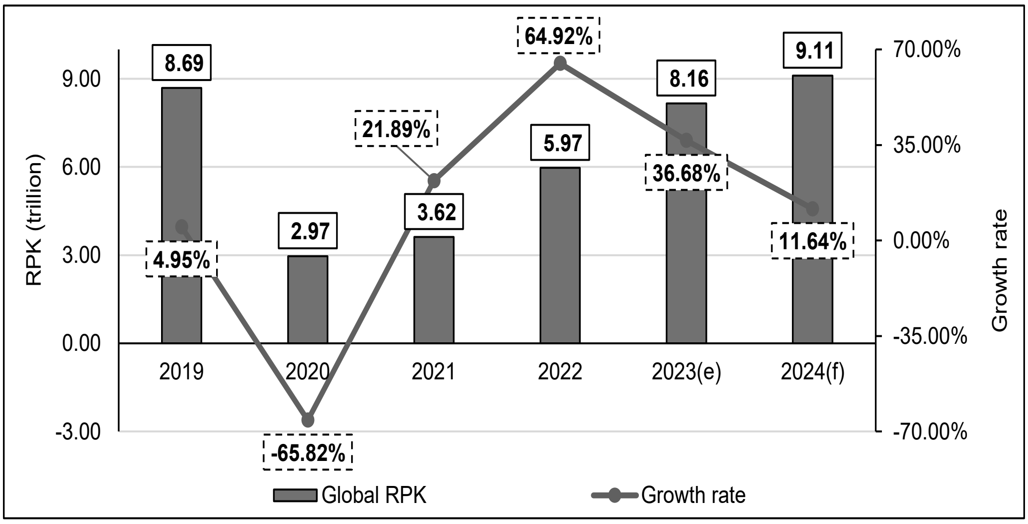
In line with the decline in global ASK between 2019 and 2021, ASK recorded for Asia Pacific and Malaysia also showed negative trends over the same period. During this period, ASK for Asia Pacific fell at a CAGR of 34.89% from 3.68 trillion to 1.56 trillion. Meanwhile, ASK for Malaysia decreased at a CAGR of 75.88% from 134.63 billion to 7.83 billion. From 2021 to 2022, ASK for Asia Pacific recovered by 19.23% from 1.56 trillion to 1.86 trillion while ASK for Malaysia recorded a massive growth of 566.28% from 7.83 billion to 52.17 billion. In 2022, Malaysia recorded a higher ASK recovery rate compared to Asia Pacific as air travel resumed with the full opening of its international borders in April 2022, while the international borders of some countries in Asia Pacific, particularly China, remained close throughout 2022.

With the reopening of China's international borders on 8 January 2023, the demand for air transportation services is expected to significantly boost and drive the recovery of ASK for Asia Pacific and Malaysia. IATA estimates ASK for Asia Pacific to grow year-on-year by approximately 74.73% to 3.25 trillion in 2023 and by approximately 14.15% to 3.71 trillion in 2024, which exceeds its pre-COVID-19 levels. Over the same period, SMITH ZANDER estimates ASK for Malaysia to expand year-on-year by 95.50% to 101.99 billion in 2023 and by 29.37% to 131.94 billion in 2024, which is close to its pre-COVID-19 levels, in tandem with MAVCOM's expectation of passenger traffic to reach close to 2019 levels in 2024.

Market demand of the aviation industry

RPK is a measure of flight demand from passengers through the multiplication of the number of paying passengers in a flight by the distance travelled by the aircraft.

RPK (Global), 2019 – 2024(f)



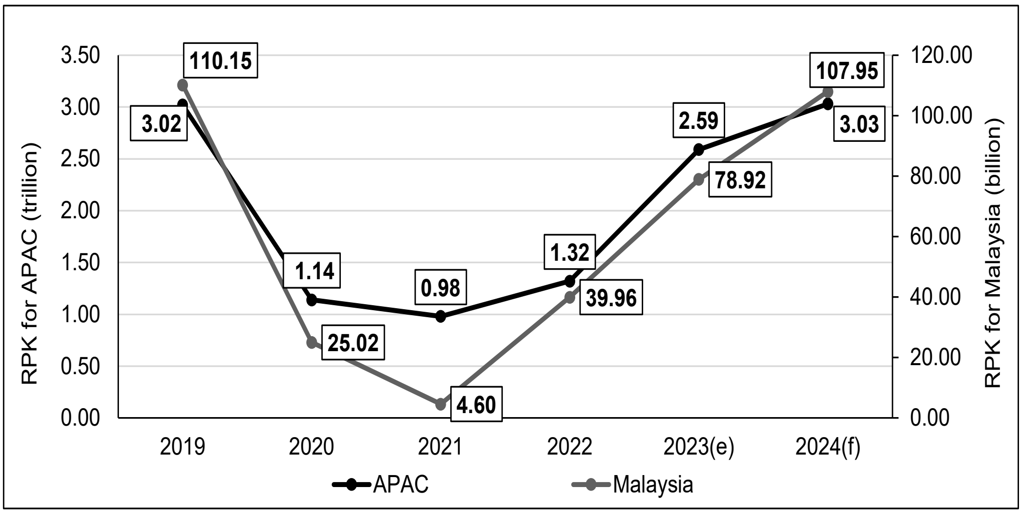
Notes:-
- *e – estimate*
- *f – forecast*

Sources: IATA, SMITH ZANDER

Consistent with the decrease in demand for air travel due to the COVID-19 pandemic, global RPK decreased year-on-year by 65.82% from 8.69 trillion in 2019 to 2.97 trillion in 2020. The decline in RPK shows that airlines were flying with significantly less passenger loads during this period which resulted in less revenue generated from each flight. With the recovery of air travel, global RPK increased from 2.97 trillion in 2020 to 5.97 trillion in 2022, at a CAGR of 41.78%.

The recovery in demand for air travel which ensued the ease of the COVID-19 pandemic impact resulted in the restoration of operating aircraft, routes and frequencies by airlines to meet this demand, which boosted global RPK. IATA estimates global RPK to surge by 36.68% in 2023 to 8.16 trillion. According to IATA, global RPK has returned to its pre-COVID-19 levels as of February 2024. As such, IATA expects global RPK to grow year-on-year by 11.64% to 9.11 trillion in 2024.

RPK (Asia Pacific (APAC) and Malaysia), 2019 – 2024(f)



<u>*Notes:-*</u>
- *e – estimate*
- *f – forecast*

Sources: IATA, ICAO, MAVCOM, SMITH ZANDER

The RPK for Asia Pacific and Malaysia also showed negative trends for the period of 2019 to 2020, consistent with that for global RPK, as airlines were generating significantly lower revenue from each flight compared to pre-COVID-19 levels. From 2019 to 2021, the RPK for Asia Pacific decreased from 3.02 trillion to 0.98 trillion, at a negative CAGR of 43.03%, while the RPK for Malaysia decreased from 110.15 billion to 4.60 billion, at a negative CAGR of 79.56%.

The recovery of RPK for Asia Pacific and Malaysia were relatively slower than global RPK, which began recovering in 2021 with the reopening of international borders in Europe and North America that led to recovery rates of 103.90% and 45.70% respectively in 2022. In 2022, the RPK for Europe and North America, at 1.77 trillion and 1.69 trillion respectively, overtook the RPK for Asia Pacific at 1.32 trillion, which was the leading region prior to the COVID-19 pandemic.

Nevertheless, many countries in Asia Pacific began to reopen their international borders in 2022 which fuelled the significant recovery in RPK for Asia Pacific by 34.69% to 1.32 trillion in 2022 from 0.98 trillion in 2021. Meanwhile, RPK for Malaysia expanded significantly by 768.70% in 2022, growing from 4.60 billion to 39.96 billion.

Further, China had also reopened its international borders on 8 January 2023. The reopening of China's international borders and other similar factors driving the recovery of passengers carried were expected to boost the recovery of RPK for Asia Pacific and Malaysia from 2023 onwards. IATA estimates RPK for Asia Pacific to recover at a CAGR of 51.51% from 1.32 trillion in 2022 to 3.03 trillion in 2024, which exceeds its pre-pandemic levels in 2019. SMITH ZANDER forecasts the RPK for Malaysia to increase from 39.96 billion in 2022 to 107.95 billion in 2024 at a CAGR of 64.36%, which is close to its pre-COVID-19 levels, in tandem with MAVCOM's expectation of passenger traffic to reach close to 2019 levels in 2024.

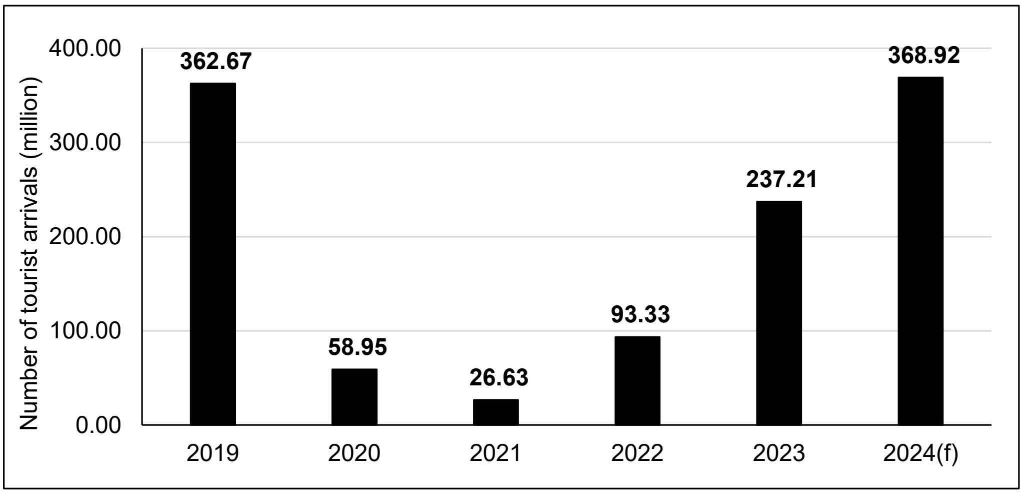
Demand drivers of the aviation industry

The growth of the aviation industry is expected to be driven and sustained by people's general desire to travel, government initiatives to revive the travel and tourism industry and attract international tourist spending, as well as economic growth which spurs the demand for air travel for leisure and business.

Pursuant to the outbreak of the COVID-19 pandemic, many countries closed their country borders, imposed nationwide lockdowns and/or implemented domestic and international travel restrictions as measures to contain the spread of the disease. This caused adverse impact to the travel and tourism industry as reflected in the decline in the number of tourist arrivals in Asia Pacific and Malaysia in 2020 and 2021. Following the uplifting of movement restrictions and reopening of international borders in 2022, travel and tourism activities have recovered due to people's pent-up desire to travel resulting from the prolonged lockdowns.

Tourist arrivals in Asia Pacific declined from 362.67 million in 2019 to 26.63 million in 2021 by a negative CAGR of 72.90%. From 2021 to 2023, the number of tourist arrivals in Asia Pacific recovered at a CAGR of 198.46% from 26.63 million to 237.21 million. SMITH ZANDER estimates that the number of tourist arrivals in Asia Pacific will exceed pre-COVID-19 levels at 368.92 million in 2024, at a year-on-year growth of 55.52%.

Number of tourist arrivals (Asia Pacific), 2019 – 2024(f)

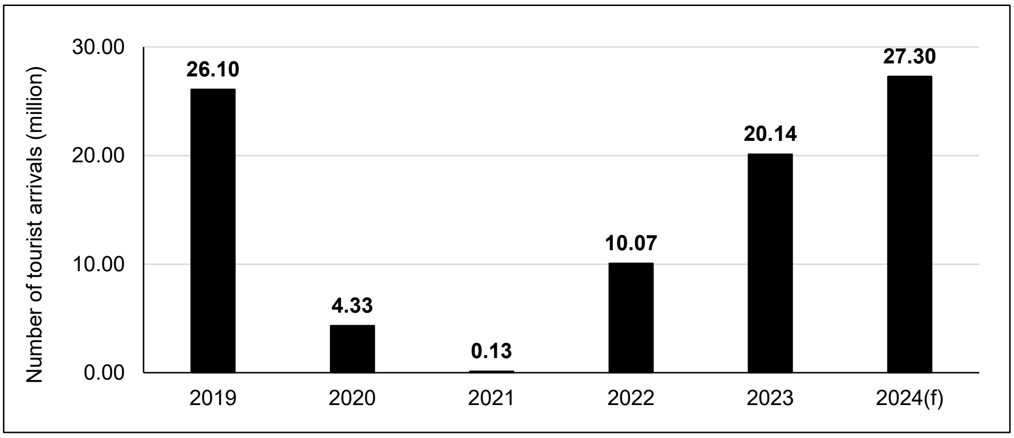


Note:-
- *f – forecast*

Sources: United Nations World Tourism Organization, SMITH ZANDER

Tourist arrivals in Malaysia declined from 26.10 million in 2019 to 0.13 million in 2021 at a negative CAGR of 92.94%. It has recovered at a CAGR of 1,144.68% from 0.13 million tourist arrivals in 2021 to 20.14 million tourist arrivals in 2023. Tourism Malaysia expects the number of tourist arrivals to reach 27.30 million in 2024, exceeding pre-COVID-19 levels, registering a year-on-year growth of 35.55%. In conjunction with Visit Malaysia Year 2026, the Ministry of Tourism, Arts and Culture, Malaysia is expecting 35.60 million tourists in 2026, an increase at CAGR of 4.53% from pre-COVID-19 levels of 26.10 million tourists in 2019.

Number of tourist arrivals (Malaysia), 2019 – 2024(f)



Note:-

- *f – forecast*

Sources: Tourism Malaysia, SMITH ZANDER

Further, as China began to reopen its international borders on 8 January 2023, outbound tourism from China has improved significantly and is expected to have boosted the growth of the tourism and aviation industry in the Southeast Asia region, which was the most popular outbound destination for Chinese tourists in 2019 where it accounted for approximately 60% of total outbound tourists from China. In 2019, Southeast Asian countries accounted for 6 out of the top 15 outbound travel destinations for Chinese tourists.

Based on the targets set by the Civil Aviation Administration of China (CAAC) in its 14th Five-Year Special Plan for Air Logistics Development, the target passenger traffic for international routes in 2025 of 65 million passengers is expected to exceed the pre-COVID-19 level of 44 million passengers in 2019.

To revive the travel and tourism industry, the governments of Malaysia and many countries across Asia Pacific have introduced various measures, with examples as follows:-

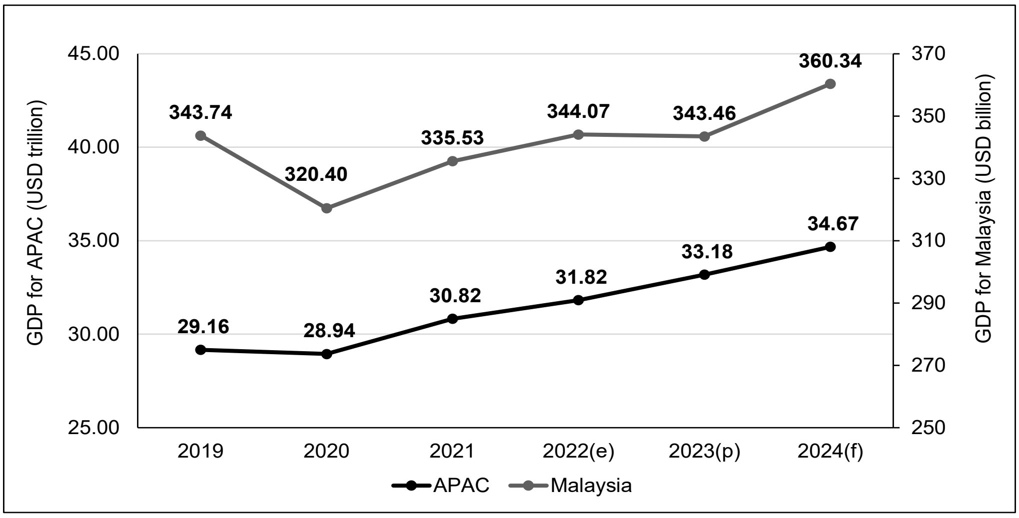
Country	Initiatives and measures taken
Malaysia	Under Budget 2024, RM350 million will be allocated to support the promotion of the Visit Malaysia Year 2026 campaign, organisation of cultural and art activities, matching grants for charter flights and funds to support Muslim-friendly tourism.
Thailand	Effective 1 March 2024, Thailand adopted a permanent visa-free entry policy for Chinese nationals, allowing stays for a maximum of 30 days, which is expected to attract and benefit 8 million Chinese visitors in 2024, a little under the pre-COVID-19 figure of 11 million. This is expected to spur Thailand's tourism industry as Chinese tourists were the nation's key tourism industry driver pre-COVID-19.

Country	Initiatives and measures taken
Indonesia	The Government of Indonesia is setting their sight on initiating the Indonesia Tourism Quality Fund worth IDR2 trillion or around USD123.50 million, aiming at promoting the tourism industry as well as national branding through sports events, concerts and business events, which are expected to attract international tourists.
Philippines	In March 2023, the Government of the Philippines launched the 2023 – 2028 National Tourism Development Plan which outlines the nation's measures to achieve its aspiration in becoming a tourism powerhouse in Asia. Amongst these measures are to boost the nation's connectivity by aiming to increase more routes for air and sea travel as well as the development of more tourist spots and linking key destinations to emerging tourist spots.
China	The Government of China has re-implemented visa-free entry policies that were in place prior to the COVID-19 pandemic following the full reopening of its borders as an effort to foster the recovery of travel and tourism in China. The visa-free entry policies currently in place are applicable for tourists from countries including Malaysia, Thailand, Singapore, Switzerland, Ireland, Hungary, Austria, Belgium and Luxembourg.

Source: Various sources

Economic activities in Malaysia and Asia Pacific have recovered from the adverse impact of the COVID-19 pandemic and demonstrated growth, as reflected in their respective GDP as shown below:-

GDP (Asia Pacific (APAC) and Malaysia), 2019 – 2024(f)

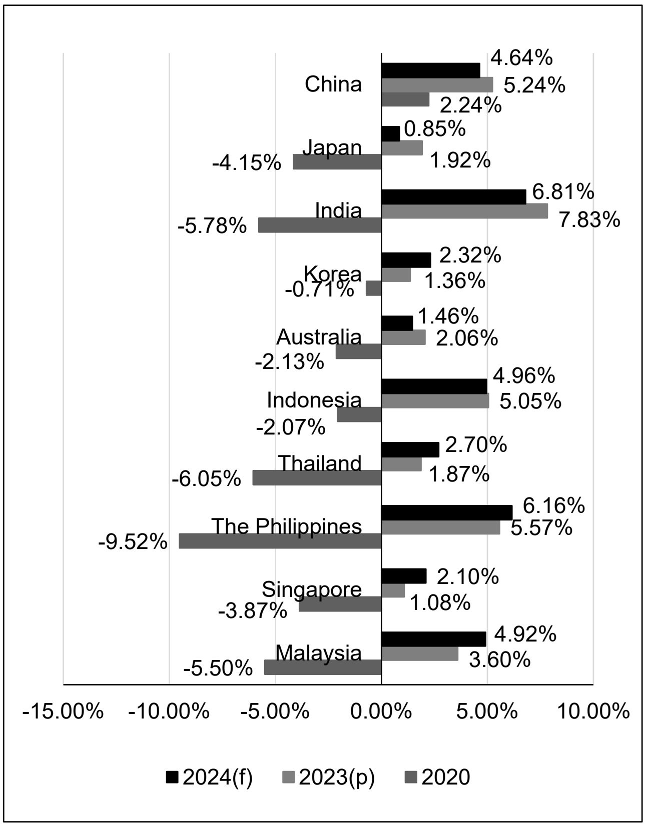


<u>Notes:-</u>

- *e – estimate*
- *p – preliminary*
- *f – forecast*

Sources: Department of Statistics Malaysia, International Monetary Fund, Ministry of Finance Malaysia, The World Bank, SMITH ZANDER

GDP Growth of top 10 GDP countries in Asia Pacific



<u>*Notes:-*</u>

- *p – preliminary*
- *f – forecast*

Sources: Department of Statistics Malaysia, International Monetary Fund, Ministry of Finance Malaysia, SMITH ZANDER

In 2023, the GDP of major economies in Asia Pacific demonstrated positive GDP growth following the declines in 2020, and is expected to continue to record positive GDP growth in 2024 as shown above. With greater wealth, there will be higher disposable income to support leisure and business travel.

Further, air travel is an essential industry to support the business travel required to set up, operate and expand businesses. In order to boost economic growth over the next few years, countries in the Asia Pacific region have introduced various business incentives and investment opportunities, with examples as follows:-

- In Malaysia, with the aim of building a wider ecosystem for the electronics and electrical sector in the northern region of Peninsular Malaysia, the Government has through the Budget 2024 proposed to open a high-tech industrial area in Kerian, Northern Perak, following the success of industrial areas in Bayan Lepas, Penang and Kulim Hi-Tech Park, Kedah in the electronics and electrical sector.

- In Thailand, the Government has approved the 2023 – 2027 Investment Promotion Strategy in October 2022 with the intention to restructure and strengthen the country's economy. Among the incentives include the relocation program which offers corporate income tax exemption to companies that relocate their regional headquarters, research and development centres, and/or manufacturing facilities to Thailand.

- In Indonesia, for a capital investment plan starting at IDR500 billion, the Government may offer a 100% tax holiday on corporate income tax due for 5 to 20 years from the beginning of commercial production, depending on the amount of the investment. Following the completion of the tax holiday, the companies are eligible to receive a 50% corporate income tax reduction for two years.

- In the Philippines, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was implemented to provide various business incentives such as the reduction of Regular Corporate Income Tax rates whereby the Regular Corporate Income Tax rate for domestic corporations with net taxable income under PHP5 million and total assets under PHP100 million is reduced from 30% to 20% while all other domestic corporations and resident foreign corporations are eligible for Regular Corporate Income Tax rate reduction from 30% to 25%.

Premised on the above, moving forward, the aviation industry will benefit from improved economic activities, which will spur leisure and business travel and drive the demand for passenger air services.

Low-cost carriers are believed to be able to continue increasing their growth and penetration in the aviation industry due to their core advantage of offering value flight services at lower-priced fares by placing emphasis on the core service which is transporting passengers by air from one destination to another with minimal complimentary ancillary services. Hence, low-cost carriers are generally more resilient and flexible in managing their cost structure to be able to offer low fares amidst sustaining through crises such as the COVID-19 pandemic. Moving forward, the sustainability of low-cost carriers is expected to be supported by the above premises, alongside their leverage on the recovery in air travel and surging demand for leisure travel as they continue to increase their capacity and rebuild their networks.

(Source: IMR Report)

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9.2 Prospects of the Target Companies and the New Aviation Group

With the Proposed Acquisitions, the New Aviation Group will house award-winning airlines with over 22 years of established history and track record, not to mention the reach to the world from its home region of Southeast Asia. Over the years, the New Aviation Group had received numerous awards and recognitions for its success in the aviation business, such as the World's Best Low-Cost Airline by Skytrax World Airline Awards for 15 consecutive years since 2009, and the World's Leading Low-Cost Airline by World Travel Awards for 11 consecutive years since 2013.

The New Aviation Group will continue to adopt a business model that will enable it to offer low fares by maintaining low cost per ASK, which has contributed to the past success of the airlines. The ability of the airlines to offer low fares and maintain low cost per ASK is attributed to no-frills flights business model adopted, high aircraft utilisation, in-house and direct customer acquisition channels (i.e. www.airasia.com and AirAsia MOVE app), efficient usage of data, technology and automation in all aspects of operations, i.e., a lean cost structure.

The extensive network connectivity and high flight frequencies offered by the airlines to be housed under the New Aviation Group will allow the enlarged aviation group to capture the travel needs of a wide range of customers travelling within the Southeast Asia and Asia Pacific regions. The airlines can leverage on each airline's routes and high flight frequencies to offer Fly-Thru flights whereby passengers can purchase connecting flights offered by the airlines for travels within the Southeast Asia and Asia Pacific regions. Therefore, this allows the New Aviation Group to potentially capture a higher market share for air travel within the regions.

The New Aviation Group will be led by a seasoned key senior management team with extensive experience in the aviation industry and in-depth operational knowledge of the respective airlines to be housed under the enlarged aviation group. Upon completion of the Proposed Acquisitions, under the leadership of Bo Lingam as the Group Chief Executive Officer of the New Aviation Group, the existing key senior management of the respective airlines will carry on their existing roles and responsibilities to ensure smooth daily operations including the execution of future plans and business strategies under the enlarged aviation group.

As the economic activities and supply chain of the aviation industry normalise, the aviation industry in Malaysia and Asia Pacific region is forecasted to recover close to / exceed their respective pre-COVID-19 levels by 2024. The recovery and growth of the industry are also expected to be fuelled by the various measures introduced by the respective government to revive the travel and tourism industry e.g. the granting of visa-free travel to Malaysia for up to 30 days for tourists from China and India by the Government of Malaysia effective 1 December 2023 until 31 December 2026 and 31 December 2024 respectively and the declaration of Visit Malaysia Year 2026. These are expected to drive the demand for air travel to and from Malaysia, China, India and around the Asia Pacific countries. In conjunction with Visit Malaysia Year 2026, the Ministry of Tourism, Arts and Culture, Malaysia is expecting RM147.1 billion in income from 35.6 million tourists in 2026, an increase at CAGR of approximately 8.0% and 4.5% respectively from pre-COVID-19 levels of RM86.1 billion in income and 26.1 million tourists in 2019.

With the respective industry track record of each airline to be housed under the New Aviation Group, as well as the synergistic benefits from the AirAsia Ecosystem and competitive strengths of the New Aviation Group, the enlarged aviation group is well-positioned to capitalise on the anticipated recovery of air travel moving forward through the following strategies and plans:-

- Over the next 3 years, the airlines within the New Aviation Group will focus on increasing their flight frequencies and expand their fleet of aircraft accordingly to capture the growing demand for air travel and maintain their positions as one of the market leaders in the respective regions where the airlines operate in. 'AirAsia Cambodia', the newly established airline of AAAGL, has recently commenced its operation in Cambodia in May 2024, utilising 2 A320 aircraft based at Phnom Penh International Airport to serve domestic flight operations, covering Phnom Penh, Siem Reap, and Sihanoukville and in August 2024, 'AirAsia Cambodia' launched its first international flight from Phnom Penh to Kuala Lumpur. The New Aviation Group will also assess the potential of expanding its coverage to new destinations.

- The New Aviation Group intends to capitalise on the growing prospects of the aviation industry by increasing its passenger volume which will then contribute to the growth in its market share. This is in line with the New Aviation Group's strategies as it envisages to maintain its position as one of the market leaders in the regions which its airlines operate in as well as to maintain and grow its market share in the Asia Pacific region. The New Aviation Group also intends to increase its revenue and grow its market share in Cambodia through its latest airline, 'AirAsia Cambodia'.

- Further growth in revenue from ancillary services to enhance the airlines' financial performance, through pricing optimisation and automation, product innovation and marketing expansion, personalised marketing and strategic collaborations and partnerships with the AirAsia Group to increase cross-selling opportunities.

- The New Aviation Group expects to also maintain an expanded portfolio of new-generation aircraft comprising both narrowbody and widebody aircraft types, namely the A321neo, the A321LR, the A321XLR and A330neo, supported by the New Aviation Group's aircraft orderbook totalling 396 aircraft, with delivery scheduled between 2024 and 2035. Within the next 3 years, the New Aviation Group expects to take delivery of a total of 34 aircraft from its orderbook, all of which are expected to be on operating leases by way of sale-and-leaseback arrangements with aircraft lessors. In addition, the New Aviation Group also expects to take delivery of 10 A321neo aircraft from an identified lessor's aircraft orderbook by way of operating leases in 2025.

The future growth and success of the New Aviation Group will be backed by an established AirAsia Ecosystem. The New Aviation Group will gain stronger leverage and bargaining power to secure continuous usage of the "AirAsia" brand which is an established brand in the aviation industry, and to secure continuous collaborations and comprehensive support services from the AirAsia Ecosystem. The New Aviation Group will also have the requisite capacity for its growth ambitions. With all of its upcoming aircraft delivery structured under operating leases by way of sale-and-leaseback arrangements with lessors, the New Aviation Group would gain the flexibility in its future fleet management and utilisation, without the risks and costs of ownership, effectively contributing to the lean and savvy nature of its business model.

In terms of financing for the New Aviation Group's aviation businesses, the Proposed Private Placement is expected to provide necessary funds to the New Aviation Group in addition to its internally generated funds and externally sourced financing.

In view of the above and barring any unforeseen circumstances, our Board is optimistic of the prospects of the Target Companies and the New Aviation Group.

10. RISKS OF THE PROPOSALS

The Proposals, in particular the Proposed Acquisitions, will subject our Group to the following key risks, which are by no means exhaustive:-

The Target Companies and our Group are involved in the aviation industry. Notwithstanding that, the Proposed Acquisitions are very substantial transactions to our Group as the highest percentage ratio applicable to the Proposed Acquisitions pursuant to Chapter 10 of the Listing Requirements is more than 100.00%.

Taking into consideration the above and the differences between the Target Companies and our Group in terms of, amongst others, the scale of business operations (including type and number of aircraft operated, fleet expansion plan, type of services provided and flight destinations / routes serviced), operational and financial requirements as well as geographical locations of business operations, our Group may assume increased exposure to existing business risks related to the aviation industry as well as additional risks arising from the acquisition of the Target Companies pursuant to the Proposed Acquisitions.

10.1 Non-completion risk

The completion of the Proposals and Proposed Granting of Subscription Options is subject to, amongst others, the approvals as set out in Section 13, Part A of this Circular being obtained.

In addition, the completion of the Proposed Acquisitions and the Proposed Granting of Subscription Options is subject to all the conditions precedent in the relevant agreements as set out in Section 3.1 of Appendix II(A) of this Circular, Section 3.1 of Appendix II(B) of this Circular and Section 2 of Appendix III of this Circular being fulfilled. There is no assurance that the said conditions precedent will be fulfilled or that the parties to the relevant agreements will be able to fulfill their respective obligations under the agreements within the timeframe stipulated therein.

In respect of the Proposed Private Placement, there is no assurance that the Placement Shares will be fully subscribed by investors.

In the event that any of the Proposals or Proposed Granting of Subscription Options does not proceed to completion, our Company will not be able to achieve the objectives and benefits of the respective proposals as set out in Section 8, Part A of this Circular.

To mitigate such risk, our Company will take all necessary steps and reasonable efforts to obtain the requisite approvals and to ensure that the conditions precedent in the relevant agreements, which are within the reasonable control of our Company, are fulfilled within the timeframe stipulated in the agreements and duly perform our Company's obligations under the agreements in order to complete the Proposals and Proposed Granting of Subscription Options in a timely manner.

10.2 Investment risk

There is no assurance that the anticipated benefits and synergies arising from the Proposed Acquisitions as set out in Section 8.3, Part A of this Circular will be realised or that the New Aviation Group will be able to generate sufficient returns to offset the dilutive effects to our Shareholders arising from the issuance of Consideration Shares. There is also no assurance that the projected financial performance of the Target Companies will be achieved after the completion of the Proposed Acquisitions.

The aviation businesses of the Target Companies and the New Aviation Group are closely correlated with the level of inbound and outbound travelling and tourism activities at both domestic and international levels and are subject to risks inherent in the aviation industry including:-

(i) changes in the general economic, social and political climate of the country;

(ii) changes in consumers' spending power, lifestyle and preferences for travel destinations;

(iii) natural disasters (e.g. earthquake, flood, tsunami, typhoon and volcanic eruption), outbreak of diseases and epidemics as well as weather conditions in the locality, country or region;

(iv) threats of terrorism, acts of sabotage, strikes, riots, geopolitical tensions, social unrest and declaration of war;

(v) changes in legislation and government policies;

(vi) negative reviews or adverse publicity affecting the reputation of the airlines, ultimately leading to negative public perception and loss of consumers' confidence towards the airlines;

(vii) increase in travelling costs as a result of higher airline operating costs arising from, amongst others, escalating fuel prices and depreciating local currencies;

(viii) ability to renew airline operator certificates and other relevant approvals / certifications to comply with the applicable regulations;

(ix) increased competition from other existing or new low-cost airlines;

(x) loss of key senior management and ability to hire replacement; and

(xi) ability to secure new aircraft deliveries for fleet replacement and expansion plans.

Nevertheless, our Group has exercised due care in considering the potential risks and benefits associated with the Proposed Acquisitions and our Board believes that the Proposed Acquisitions are critical to the long-term sustainability of our Group as we have been leveraging on the "AirAsia" brand and AirAsia Ecosystem since the commencement of our Group's business. Our Board also believes that the integration risk is low in view that our Group and the Target Companies have been operating within the same AirAsia Ecosystem.

10.3 Projection risk

The AAAGL Purchase Consideration and AAB Purchase Consideration were arrived at after taking into consideration, amongst others, the range of valuation for the entire equity interests in the Target Companies based on the valuation undertaken by Deloitte. In arriving at the valuation of the Target Companies, the Valuer has considered a number of valuation approaches and adopted the DCF method of valuation as the primary method for the valuation of the AOCs, namely AAB, TAA, PAA and IAA using the 5-year financial projections of the said AOCs from 1 January 2024 to 31 December 2028 together with the underlying bases and assumptions.

There is no assurance that the AOCs will be able to achieve the projected results in the future and that the key underlying bases and assumptions used in arriving at the valuation of the Target Companies will materialise as planned. In the event that the AOCs are unable to achieve the projected results in the future and/or if any of the key underlying bases and assumptions used in arriving at the valuation of the Target Companies does not materialise as planned, the valuation of the Target Companies may deteriorate and the New Aviation Group may be required to recognise an impairment loss on the carrying amount of its investments in the Target Companies (including any goodwill and intangible assets arising from the Proposed Acquisitions) and this may adversely affect the financial performance and financial position of the New Aviation Group.

In mitigating such risk and to ensure smooth daily operations including the execution of future plans and business strategies under the enlarged aviation group, a centralised leadership is intended to be established under Bo Lingam as the Group Chief Executive Officer of the New Aviation Group and he will be assisted by a team of experienced key senior management team with extensive experience in the aviation industry and in-depth operational knowledge of the respective airlines. In addition, it is worth noting that the Valuer has assigned additional risk premiums to the discount rates adopted in its DCF method to account for uncertainties and risks attributable to the cash flow projections for the respective AOCs.

10.4 Goodwill and impairment risk

The Proposed Acquisitions are expected to give rise to goodwill to be recognised, the amount of which will depend on the fair value of the Target Companies' identifiable assets acquired (including any intangible assets identified) and liabilities assumed upon completion of the Proposed Acquisitions.

The identifiable assets and liabilities of the Target Companies will initially be recorded in the New Aviation Group's books at their provisional fair values as at the acquisition date pending the conclusion of a purchase price allocation exercise in accordance with Malaysian Financial Reporting Standards 3 *Business Combinations*. Although a preliminary assessment has been conducted, the final outcome of the purchase price allocation exercise cannot be ascertained at this juncture. Any fair value adjustment to the identifiable assets and liabilities arising therefrom may affect the goodwill and financial position of the New Aviation Group. In addition, any impairment on the carrying amount of the investments in the Target Companies (including any goodwill and intangible assets arising from the Proposed Acquisitions) and amortisation of any intangible assets identified from the Proposed Acquisitions may affect the financial performance and financial position of the New Aviation Group.

For illustrative purposes, as set out in the pro forma consolidated statement of financial position of our Group as at 31 December 2023 in Appendix VIII of this Circular, the goodwill and intangible assets upon completion of the Proposed Acquisitions are RM10,090.74 million and RM2,430.84 million respectively, based on the assumptions and parameters stated therein.

Notwithstanding the above, the AAAGL Purchase Consideration and AAB Purchase Consideration fall within the range of valuation for the entire AAAGL Equity Interest and AAB Equity Interest as at 31 December 2023 respectively based on the valuation conducted by Deloitte.

10.5 Risk of triggering Practice Note 17 of the Listing Requirements ("PN17")

The outbreak of the global COVID-19 pandemic had created significant challenges for the aviation industry. As a result, the financial performance and financial position of Capital A was greatly impacted in an adverse manner. On 7 January 2022, Capital A was classified as a PN17 issuer as it triggered the prescribed criteria pursuant to Paragraph 8.04 of the Listing Requirements and Paragraphs 2.1(a) and 2.1(e) of PN17 as set out below:-

(i) Paragraph 2.1(a) – the shareholders' equity of the listed issuer on a consolidated basis is 25% or less of the share capital (excluding treasury shares) of the listed issuer and such shareholders' equity is less than RM40 million; and

(ii) Paragraph 2.1(e) – the auditors have highlighted a material uncertainty related to going concern or expressed a qualification on the listed issuer's ability to continue as a going concern in the listed issuer's latest audited financial statements and the shareholders' equity of the listed issuer on a consolidated basis is 50% or less of share capital (excluding treasury shares) of the listed issuer.

As at the LPD, Capital A is still classified as a PN17 issuer whereas our Company has been uplifted from being classified as a PN17 issuer on 22 November 2023.

There is no assurance that our Company will not trigger the prescribed criteria pursuant to Paragraph 8.04 of the Listing Requirements and Paragraph 2 of PN17 and be classified as a PN17 issuer again following the completion of the Proposed Acquisitions in view that the Target Companies were the major contributors to the decline in financial performance and financial position of Capital A during the COVID-19 pandemic period.

As at 31 December 2023, the AAAGL Group reported net current liabilities of RM9,127.04 million and a capital deficiency of RM5,187.04 million whereas the AAB Group reported a capital deficiency of RM1,504.69 million. These conditions may affect the ability of the Target Companies to meet their financial obligations as and when they fall due. For further information on the financial performance and financial position of the Target Companies for the past 3 financial years, please refer to the accountants' reports of AAAGL and AAB as set out in Appendix IX of this Circular and Appendix X of this Circular respectively.

Barring any unforeseen circumstances, our Board is optimistic of the prospects of the Target Companies and the New Aviation Group. With the respective industry track record of each airline to be housed under the New Aviation Group, as well as the synergistic benefits from the AirAsia Ecosystem and competitive strengths of the New Aviation Group, the enlarged aviation group is well-positioned to capitalise on the anticipated recovery of air travel moving forward.

In addition, our Company will undertake the Proposed Private Placement of RM1,000.00 million to strengthen our financial position amidst undertaking the Proposed Acquisitions. Furthermore, one of the conditions precedent in the SSPAs requires that each of the Target Companies (together with their respective group of companies) does not incur or record an aggregate loss exceeding RM50.00 million during the 3-month period immediately preceding the respective dates of completion of the Proposed AAAGL Acquisition and Proposed AAB Acquisition.

10.6 Limitation of liabilities

Pursuant to the SSPAs, there are certain pre-determined minimum thresholds in respect of indemnities by the Vendor (as set out in Section 6 of Appendix II(A) of this Circular and Section 6 of Appendix II(B) of this Circular) and limitation of liabilities in respect of breach of warranties (as set out in Section 7 of Appendix II(A) of this Circular and Section 7 of Appendix II(B) of this Circular).

In the event that a claim by the Purchaser against the Vendor arising from, amongst others, unfavourable outcome of litigation cases, crystallisation of contingent liabilities and additional tax liabilities to be paid by the Target Companies, is limited or restricted due to pre-determined minimum thresholds and limitation of liabilities as abovementioned or the Vendor is unable to fulfill its obligations in respect of such claim, this may have a material adverse effect on the financial performance and financial position of the New Aviation Group.

As at the date of this Circular, the due diligence exercise on the Target Companies has been completed. Notwithstanding that, the SSPAs may still be terminated at any time prior to the completion of the Proposed Acquisitions in the event that the Purchaser becomes aware that any of the Vendor's warranties was untrue or inaccurate, any inconsistency with the warranties given by the Vendor is discovered, an AAAGL Material Adverse Change (as defined under Note (1) to Section 5(iii) of Appendix II(A) of this Circular) / AAB Material Adverse Change (as defined under Note (1) to Section 5(iii) of Appendix II(B) of this Circular) has occurred or any other breach on the part of the Vendor of the terms of the SSPAs has occurred.

10.7 Financing and default risk

Where necessary, the New Aviation Group may seek equity and/or debt financing for its future funding requirements. The New Aviation Group's ability to obtain such financing and the cost of financing will depend on numerous factors, such as general economic and market conditions, interest rates, credit availability from the banks and/or other lenders, any restriction imposed by the government as well as political, social and economic conditions. There is no assurance that the necessary financing will be available in amounts or on terms and conditions acceptable to the New Aviation Group.

In respect of debt financing, the New Aviation Group is highly geared and could potentially be exposed to risk of default and fluctuation in interest rates on the financing obtained. As set out in Section 11.3, Part A of this Circular, our Group's pro forma total borrowings, debentures and lease liabilities as at 31 December 2023 is RM24,492.69 million (gearing ratio of 42.60 times) upon completion of the Proposed Acquisitions. An increase in financing costs may adversely affect the New Aviation Group's financial performance and its ability to service the financial obligations.

In the event that the New Aviation Group is unable to generate sufficient cash flows to service principal repayments and/or interest costs in respect of any debt financing, this will constitute an event of default, and this may trigger cross default provisions of other financing facilities. In such circumstances, the affected lenders / financiers of the New Aviation Group may demand for an immediate repayment of outstanding amounts and withdraw financing facilities which would otherwise be available for the New Aviation Group.

The New Aviation Group will continuously monitor and review its debt portfolio, which takes into consideration the New Aviation Group's gearing level, interest costs and cash flows. Where necessary, the New Aviation Group may refinance its debt obligations to extend the tenure and/or to obtain more favourable financing terms. Further, as the New Aviation Group reactivates more aircraft and ramps up its operations in line with the revival and increase of air travel demand after the COVID-19 pandemic, its financial performance and financial position are expected to strengthen, and this will also mitigate the financing and default risk.

10.8 Foreign exchange risk

A portion of the airlines' revenue and costs are exposed to foreign exchange risks, including seat sales, freight services, fuel costs, maintenance, repair and overhaul expense and rental expense. Hence, any fluctuation in foreign exchange rates will have an impact to the financial performance of the airlines, e.g. an appreciation of USD against RM will result in the airlines incurring higher fuel costs, maintenance, repair and overhaul expense and rental expense.

The management of the New Aviation Group will manage the foreign currency exposures, to the extent possible, by natural hedges that arise when payments for foreign currency payables are matched against collections from receivables denominated in the same foreign currency or whenever possible, by intragroup arrangements and settlements. Where necessary, financial instruments such as foreign currency forwards may be entered into to hedge foreign exchange risk.

10.9 Risk of reliance on "AirAsia" brand (including "AirAsia X" brand) and AirAsia Ecosystem

The airlines to be housed under the New Aviation Group rely on the strength of "AirAsia" brand (including "AirAsia X" brand) to market and promote their seat sales and ancillary products and services. The New Aviation Group does not and will not own the "AirAsia" brand(1) following the completion of the Proposed Acquisitions.

Note:-

(1) The "AirAsia" brand is currently owned by Brand AA Sdn Bhd, a wholly-owned subsidiary of Capital A. As announced by Capital A on 28 February 2024, Capital A is undertaking a proposed business combination involving its equity interest in Brand AA Sdn Bhd with, amongst others, Aetherium Acquisition Corp, a special purpose acquisition corporation listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) in the US to unlock the value of Brand AA Sdn Bhd.

Instead, pursuant to the MBLA, AAAGL was granted the exclusive right to use the trade name and livery of the "AirAsia" brand for its aviation related business, including the right to sub-license such rights to its affiliates (including AAB, TAA, PAA, IAA and CAA). The MBLA shall remain in force for 10 years from 1 January 2023 and upon expiry of the initial term of the MBLA, the MBLA shall be automatically extended for a period of 10 years, provided that the MBLA has not been lawfully terminated by reason of breach or default in accordance with the terms and provisions of the MBLA.

In the event that the MBLA is not renewed at its expiry or is terminated, the New Aviation Group will not be able to continue leveraging on the "AirAsia" brand and this is expected to have a material adverse effect on the enlarged aviation group's financial performance. Further, any deterioration to the brand recognition may also have an adverse effect on the business, operations and financial performance of the airlines.

In addition, the airlines also rely on the AirAsia Ecosystem which helps to support the airlines' businesses, including AirAsia Group's online sales channels, maintenance, repair and overhaul services, digital payment and financial services, cargo and logistics services, ground handling services, in-flight meal services and a shared services centre. Losing such benefits of comprehensive support services from the AirAsia Ecosystem, the New Aviation Group may face challenges in running the operations of the airlines effectively and in a cost-efficient manner.

In mitigating such risk, a centralised leadership is intended to be established under Bo Lingam as the Group Chief Executive Officer of the New Aviation Group and he will be assisted by a team of experienced key senior management team with extensive experience in the aviation industry and in-depth operational knowledge of the respective airlines. Upon completion of the Proposed Acquisitions, the management of the New Aviation Group will continue to maintain good working relationship with other entities within the AirAsia Ecosystem to preserve the benefits and synergies derived therefrom.

10.10 Foreign investment risk

The investment in the AAAGL Group is subject to foreign investment risk. The ability of foreign entities within the AAAGL Group to repatriate profits will depend largely on the relevant legislations or policies relating to the repatriation of profits prevailing at the point of repatriation. In the event of any changes in the foreign investment policies in Labuan, Thailand, the Philippines and Indonesia which restrict or prohibit foreign investments in the respective foreign entities or repatriation of profits from these countries, there may be a material and adverse impact to the New Aviation Group.

The expert's report on policies on foreign investments, taxation and repatriation of profits under the relevant laws of Labuan, Malaysia, Thailand, the Philippines and Indonesia is set out in Appendix XIII of this Circular.

In addition, please refer to Appendix XIV of this Circular for the legal opinion on ownership of title to the securities or assets and the enforceability of agreements, representations and undertakings given by foreign counter-parties and other relevant legal matters under the relevant laws of Labuan, Malaysia, Thailand, the Philippines and Indonesia.

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10.11 Dilution of existing shareholdings of our Shareholders

The issuance of Placement Shares, Consideration Shares and Subscription Shares will have a dilutive impact to the existing shareholdings of our Shareholders in AAX, as illustrated in the table below:-

		Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share				Pro forma B: Based on an illustrative issue price of RM1.13 per Placement Share			
		Total no. of issued Shares	Existing shareholdings of our Shareholders		% of dilution	Total no. of issued Shares	Existing shareholdings of our Shareholders		% of dilution
			No. of Shares	%			No. of Shares	%	
(I)	As at the LPD	447,072,803	447,072,803	100.00		447,072,803	447,072,803	100.00	
(II)	Based on (I) and after the issuance of Placement Shares pursuant to the Proposed Private Placement	1,447,072,803	447,072,803	30.89	(69.11)	1,332,028,555	447,072,803	33.56	(66.44)
(III)	After (II) and the issuance of Consideration Shares pursuant to the Proposed AAAGL Acquisition and Proposed Distribution by Capital A	3,754,765,110	447,072,803	11.91	(88.09)	3,639,720,862	447,072,803	12.28	(87.72)
(IV)	After (III) and assuming full subscription of the Subscription Shares	4,205,336,923	447,072,803	10.63	(89.37)	4,076,487,365	447,072,803	10.97	(89.03)
(V)	After (IV) and assuming full exercise of the Warrants	4,428,873,324	670,609,204	15.14	(84.86)	4,300,023,766	670,609,204	15.60	(84.40)

Based on the above, upon the issuance of Placement Shares, Consideration Shares and Subscription Shares, the existing shareholdings of our Shareholders in AAX will be diluted by 89.37% to 10.63% under Pro forma A (Pro forma B: diluted by 89.03% to 10.97%).

The Proposed Issuance of Free Warrants serves to mitigate the dilutive impact from the issuance of Placement Shares, Consideration Shares and Subscription Shares as there will be no Warrants to be issued in respect of the Placement Shares, Consideration Shares and Subscription Shares. Upon full exercise of the Warrants, the existing shareholdings of our Shareholders in AAX (including new Shares from the exercise of the Warrants) will increase to 15.14%, representing an effective dilution of 84.86% from your existing shareholdings in AAX under Pro Forma A (Pro forma B: increase to 15.60%; effective dilution of 84.40%).

Notwithstanding that the issuance of Placement Shares, Consideration Shares and Subscription Shares will result in a dilutive impact to the your existing shareholdings in AAX, you should note that:-

(i) the Proposed Private Placement is undertaken to strengthen the financial position of our Group and to raise funds of RM1,000.00 million for the New Aviation Group's aviation businesses. Furthermore, the Placement Shares are intended to be issued at the prevailing market price of our Shares at the price-fixing date of the Placement Shares, with a discount of not more than 15% and in any event, the issue price shall not be lower than the minimum issue price of RM1.00 per Placement Share;

(ii) the Proposed Acquisitions present an opportunity to you to own a part of the New Aviation Group and to bear the risks and rewards associated with ownership of the enlarged aviation group amidst the anticipated recovery of international air traffic post COVID-19 in addition to other rationale and benefits of the Proposed Acquisitions as set out in Section 8.3, Part A of this Circular. With the respective industry track record of each airline to be housed under the New Aviation Group, as well as the synergistic benefits from the AirAsia Ecosystem and competitive strengths of the New Aviation Group, the enlarged aviation group is well-positioned to capitalise on the anticipated recovery of air travel moving forward;

(iii) the Consideration Shares are issued to fully satisfy the AAAGL Purchase Consideration (which is fair and justifiable as explained in Section 4.3, Part A of this Circular) at an agreed issued price of RM1.30 each which reflects the prevailing market prices of our Shares prior to the signing of the SSPAs;

(iv) the issuance of Subscription Shares is a form of fund-raising exercise for our Group in the event that the Subscriber exercises the Subscription Options to subscribe for Subscription Shares. As set out in Section 7.3, Part A of this Circular, the mechanism under the Proposed Granting of Subscription Options allows our Company to issue any Subscription Shares at the prevailing market price of our Shares during the 24-month acceptance period and without any discount. Hence, this mechanism is expected to result in less dilution to our Shareholders as compared to the pricing mechanism of the Previous Subscription Option; and

(v) the issue prices of the Placement Shares, Consideration Shares and Subscription Shares are / are expected to be higher than the unaudited consolidated NA of AAX as at 30 June 2024 of RM0.46 per Share.

11. EFFECTS OF THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS

11.1 Issued share capital

The Proposed AAB Acquisition will not have any effect on the issued share capital of our Company. The pro forma effects of the Proposed Issuance of Free Warrants, Proposed Private Placement, Proposed AAAGL Acquisition, Proposed Share Capital Reduction and the Proposed Granting of Subscription Options on the issued share capital of our Company are as follows:-

	Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share		Pro forma B: Based on an illustrative issue price of RM1.13 per Placement Share	
	No. of Shares	**Share capital (RM'000)**	**No. of Shares**	**Share capital (RM'000)**
As at the LPD	447,072,803	51,029	447,072,803	51,029
Placement Shares to be issued pursuant to the Proposed Private Placement	1,000,000,000	1,000,000[(1)]	884,955,752	1,000,000[(2)]
	1,447,072,803	1,051,029	1,332,028,555	1,051,029
Consideration Shares to be issued pursuant to the Proposed AAAGL Acquisition	2,307,692,307	3,046,154[(3)]	2,307,692,307	3,046,154[(3)]
	3,754,765,110	4,097,183	3,639,720,862	4,097,183
Reduction of issued share capital pursuant to the Proposed Share Capital Reduction	-	(3,997,183)	-	(3,997,183)
	3,754,765,110	100,000	3,639,720,862	100,000
New Shares to be issued assuming full subscription of the Subscription Shares (up to)	450,571,813	594,755[(4)]	436,766,503	576,532[(4)]
	4,205,336,923	694,755	4,076,487,365	676,532
New Shares to be issued assuming full exercise of the Warrants (up to)	223,536,401	295,068[(5)]	223,536,401	295,068[(5)]
Issued share capital after the Proposals and Proposed Granting of Subscription Options	**4,428,873,324**	**989,823**	**4,300,023,766**	**971,600**

Notes:-

(1) Based on the minimum issue price of RM1.00 per Placement Share as determined by our Company.

(2) Based on an illustrative issue price of RM1.13 per Placement Share, which represents a discount of approximately 14.39% to the 5-day VWAP of our Shares up to and including the LPD of RM1.32.

(3) Based on an illustrative price of RM1.32 per Consideration Share, using the 5-day VWAP of our Shares up to and including the LPD of RM1.32 as a proxy of the fair value of the AAAGL Purchase Consideration.

(4) Based on an illustrative issue price of RM1.32 per Subscription Share based on the 5-day VWAP of our Shares up to and including the LPD.

(5) Based on an illustrative exercise price of RM1.32 per Warrant based on the 5-day VWAP of our Shares up to and including the LPD.

11.2 Substantial Shareholders' shareholdings

The Proposed AAB Acquisition and Proposed Share Capital Reduction are not expected to have any effect on the substantial Shareholders' shareholdings in our Company. The pro forma effects of the Proposed Issuance of Free Warrants, Proposed Private Placement, Proposed AAAGL Acquisition and Proposed Granting of Subscription Options on the substantial Shareholders' shareholdings in our Company based on the Register of Substantial Shareholders of our Company as at 2 September 2024 are as follows:-

Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share

	As at 2 September 2024				A(I) After the AAX Stake Transfer			
	Direct		Indirect		Direct		Indirect	
Substantial Shareholders	**No. of Shares**	**%[(1)]**	**No. of Shares**	**%[(1)]**	**No. of Shares**	**%[(1)]**	**No. of Shares**	**%[(1)]**
Tan Sri Tony Fernandes	11,158,722	2.50	131,033,136[(2)]	29.31	11,158,722	2.50	131,033,136[(4)]	29.31
Datuk Kamarudin	37,070,993	8.29	131,033,136[(2)]	29.31	37,070,993	8.29	131,033,136[(4)]	29.31
AAB	57,072,850	12.77	-	-	-	-	-	-
Capital A	-	-	57,072,850[(3)]	12.77	57,072,850	12.77	-	-
Tune Group Sdn Bhd	73,960,286	16.54	-	-	73,960,286	16.54	-	-
Tune Live	-	-	-	-	-	-	-	-
Tune Air	-	-	-	-	-	-	-	-
Capital A and PACs	**179,262,851**	**40.10**			**179,262,851**	**40.10**		
Garynma	-	-	-	-	-	-	-	-
Public shareholding spread (%)	**59.90**				**59.90**			

	A(II) After A(I) and the Proposed Private Placement				A(III) After A(II) and the Proposed AAAGL Acquisition and Proposed Distribution by Capital A			
	Direct		Indirect		Direct		Indirect	
Substantial Shareholders	**No. of Shares**	**%[(5)]**	**No. of Shares**	**%[(5)]**	**No. of Shares**	**%[(6)]**	**No. of Shares**	**%[(6)]**
Tan Sri Tony Fernandes	11,158,722	0.77	131,033,136[(4)]	9.06	11,944,579	0.32	1,149,360,456[(7)]	30.61
Datuk Kamarudin	37,070,993	2.56	131,033,136[(4)]	9.06	37,856,850	1.01	1,149,360,456[(7)]	30.61
AAB	-	-	-	-	-	-	-	-
Capital A	57,072,850	3.95	-	-	672,457,465	17.91	-	-
Tune Group Sdn Bhd	73,960,286	5.11	-	-	73,960,286	1.97	-	-
Tune Live	-	-	-	-	200,000,800	5.33	-	-
Tune Air	-	-	-	-	202,941,905	5.40	-	-
Capital A and PACs	**179,262,851**	**12.39**			**1,199,161,885**	**31.94**		
Garynma	-	-	-	-	-	-	-	-
Public shareholding spread (%)	**87.61[(8)]**				**68.06[(8)]**			

Substantial Shareholders	A(IV) After A(III) and assuming full subscription of the Subscription Shares				A(V) After A(IV) and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%(9)	No. of Shares	%(9)	No. of Shares	%(10)	No. of Shares	%(10)
Tan Sri Tony Fernandes	11,944,579	0.29	1,149,360,456(7)	27.33	17,523,940	0.40	1,214,877,024(7)	27.43
Datuk Kamarudin	37,856,850	0.90	1,149,360,456(7)	27.33	56,392,346	1.27	1,214,877,024(7)	27.43
AAB	-	-	-	-	-	-	-	-
Capital A	672,457,465	15.99	-	-	700,993,890	15.83	-	-
Tune Group Sdn Bhd	73,960,286	1.76	-	-	110,940,429	2.50	-	-
Tune Live	200,000,800	4.76	-	-	200,000,800	4.52	-	-
Tune Air	202,941,905	4.82	-	-	202,941,905	4.58	-	-
Capital A and PACs	**1,199,161,885**	**28.52**			**1,288,793,310**	**29.10**		
Garynma	450,571,813(11)	10.71	-	-	450,571,813(11)	10.17	-	-
Public shareholding spread (%)	**60.77%(8)**				**60.73%(8)**			

Notes:-

(1) Based on 447,072,803 issued Shares as at 2 September 2024.
(2) Deemed interested by virtue of his interests in AAB and Tune Group Sdn Bhd pursuant to Section 8 of the Act.
(3) Deemed interested by virtue of its interest in AAB pursuant to Section 8 of the Act.
(4) Deemed interested by virtue of his interests in Capital A and Tune Group Sdn Bhd pursuant to Section 8 of the Act.
(5) Based on 1,447,072,803 issued Shares after the Proposed Private Placement assuming a total of 1,000,000,000 Placement Shares are issued at the minimum issue price of RM1.00 per Placement Share as determined by our Company to raise gross proceeds of RM1,000.00 million.
(6) Based on 3,754,765,110 issued Shares after the Proposed AAAGL Acquisition.
(7) Deemed interested by virtue of his interests in Capital A, Tune Group Sdn Bhd, Tune Live and Tune Air pursuant to Section 8 of the Act.
(8) Assuming that all investors who subscribe for the Placement Shares are considered as public shareholders in accordance with the Listing Requirements. In the event that such investors will become substantial Shareholders of our Company as a result of the subscription of the Placement Shares and hence, will not be considered as public shareholders in accordance with the Listing Requirements, the public shareholding spread of our Company will decrease to 18.51% in Pro forma A(II) (Pro forma A(III): 41.43%; Pro forma A(IV): 36.99%; Pro forma A(V): 38.15%). In such circumstance, in order to comply with the public shareholding spread requirement pursuant to Paragraph 8.02 of the Listing Requirements, the Placement Shares will be issued on the same day as the Consideration Shares.
(9) Based on 4,205,336,923 issued Shares assuming full subscription of the Subscription Shares.
(10) Based on 4,428,873,324 issued Shares assuming full exercise of the Warrants.
(11) The sole shareholder of Garynma is Cosima Investments Pte Ltd, which is wholly owned by Dato' Lim Kian Onn.

Pro forma B: Based on an illustrative issue price of RM1.13 per Placement Share

Substantial Shareholders	As at 2 September 2024				B(I) After the AAX Stake Transfer			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%[(1)]	No. of Shares	%[(1)]	No. of Shares	%[(1)]	No. of Shares	%[(1)]
Tan Sri Tony Fernandes	11,158,722	2.50	131,033,136[(2)]	29.31	11,158,722	2.50	131,033,136[(4)]	29.31
Datuk Kamarudin	37,070,993	8.29	131,033,136[(2)]	29.31	37,070,993	8.29	131,033,136[(4)]	29.31
AAB	57,072,850	12.77	-	-	-	-	-	-
Capital A	-	-	57,072,850[(3)]	12.77	57,072,850	12.77	-	-
Tune Group Sdn Bhd	73,960,286	16.54	-	-	73,960,286	16.54	-	-
Tune Live	-	-	-	-	-	-	-	-
Tune Air	-	-	-	-	-	-	-	-
Capital A and PACs	**179,262,851**	**40.10**			**179,262,851**	**40.10**		
Garynma	-	-	-	-	-	-	-	-
Public shareholding spread (%)	**59.90**				**59.90**			

Substantial Shareholders	B(II) After B(I) and the Proposed Private Placement				B(III) After B(II) and the Proposed AAAGL Acquisition and Proposed Distribution by Capital A			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%[(5)]	No. of Shares	%[(5)]	No. of Shares	%[(6)]	No. of Shares	%[(6)]
Tan Sri Tony Fernandes	11,158,722	0.84	131,033,136[(4)]	9.84	11,944,579	0.33	1,149,360,456[(7)]	31.58
Datuk Kamarudin	37,070,993	2.78	131,033,136[(4)]	9.84	37,856,850	1.04	1,149,360,456[(7)]	31.58
AAB	-	-	-	-	-	-	-	-
Capital A	57,072,850	4.29	-	-	672,457,465	18.48	-	-
Tune Group Sdn Bhd	73,960,286	5.55	-	-	73,960,286	2.03	-	-
Tune Live	-	-	-	-	200,000,800	5.49	-	-
Tune Air	-	-	-	-	202,941,905	5.58	-	-
Capital A and PACs	**179,262,851**	**13.46**			**1,199,161,885**	**32.95**		
Garynma	-	-	-	-	-	-	-	-
Public shareholding spread (%)	**86.54[(8)]**				**67.05[(8)]**			

Substantial Shareholders	B(IV) After B(III) and assuming full subscription of the Subscription Shares				B(V) After B(IV) and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%(9)	No. of Shares	%(9)	No. of Shares	%(10)	No. of Shares	%(10)
Tan Sri Tony Fernandes	11,944,579	0.29	1,149,360,456(7)	28.20	17,523,940	0.41	1,214,877,024(7)	28.25
Datuk Kamarudin	37,856,850	0.93	1,149,360,456(7)	28.20	56,392,346	1.31	1,214,877,024(7)	28.25
AAB	-	-	-	-	-	-	-	-
Capital A	672,457,465	16.50	-	-	700,993,890	16.30	-	-
Tune Group Sdn Bhd	73,960,286	1.81	-	-	110,940,429	2.58	-	-
Tune Live	200,000,800	4.91	-	-	200,000,800	4.65	-	-
Tune Air	202,941,905	4.98	-	-	202,941,905	4.72	-	-
Capital A and PACs	**1,199,161,885**	**29.42**			**1,288,793,310**	**29.97**		
Garynma	436,766,503(11)	10.71	-	-	436,766,503(11)	10.16	-	-
Public shareholding spread (%)	**59.87(8)**				**59.87(8)**			

Notes:-

(1) *Based on 447,072,803 issued Shares as at 2 September 2024.*
(2) *Deemed interested by virtue of his interests in AAB and Tune Group Sdn Bhd pursuant to Section 8 of the Act.*
(3) *Deemed interested by virtue of its interest in AAB pursuant to Section 8 of the Act.*
(4) *Deemed interested by virtue of his interests in Capital A and Tune Group Sdn Bhd pursuant to Section 8 of the Act.*
(5) *Based on 1,332,028,555 issued Shares after the Proposed Private Placement assuming a total of 884,955,752 Placement Shares are issued at an illustrative issue price of RM1.13 per Placement Share to raise gross proceeds of approximately RM1,000.00 million.*
(6) *Based on 3,639,720,862 issued Shares after the Proposed AAAGL Acquisition.*
(7) *Deemed interested by virtue of his interests in Capital A, Tune Group Sdn Bhd, Tune Live and Tune Air pursuant to Section 8 of the Act.*
(8) *Assuming that all investors who subscribe for the Placement Shares are considered as public shareholders in accordance with the Listing Requirements. In the event that such investors will become substantial Shareholders of our Company as a result of the subscription of the Placement Shares and hence, will not be considered as public shareholders in accordance with the Listing Requirements, the public shareholding spread of our Company will decrease to 20.10% in Pro forma B(II) (Pro forma B(III): 42.74%; Pro forma B(IV): 38.16%; Pro forma B(V): 39.29%). In such circumstance, in order to comply with the public shareholding spread requirement pursuant to Paragraph 8.02 of the Listing Requirements, the Placement Shares will be issued on the same day as the Consideration Shares.*
(9) *Based on 4,076,487,365 issued Shares assuming full subscription of the Subscription Shares.*
(10) *Based on 4,300,023,766 issued Shares assuming full exercise of the Warrants.*
(11) *The sole shareholder of Garynma is Cosima Investments Pte Ltd, which is wholly owned by Dato' Lim Kian Onn.*

Based on the pro forma effects above, the Proposals and Proposed Granting of Subscription Options are not expected to result in non-compliance with Paragraph 8.02(1) of the Listing Requirements and our Company will continue to comply with the public shareholding spread requirement.

The actual shareholdings in AAX held by Capital A and PACs after the Proposed Private Placement and/or Proposed AAAGL Acquisition (including the Proposed Distribution by Capital A) would depend on the issue price of the Placement Shares to be determined later. Pursuant to the Letter of Undertaking as set out in Section 4.11, Part A of this Circular, Capital A and PACs have irrevocably and unconditionally undertaken that in the event any circumstances or potential circumstances arise which will result in Capital A and PACs triggering any take-over obligations in the Rules at any given time throughout and/or upon completion of the Proposals and Proposed Distribution by Capital A, they will, or they will procure member(s) of the group of persons acting in concert to sell, transfer, give or otherwise dispose of our Shares or ordinary shares in Capital A held by it / them before completion of the Proposed Private Placement and/or Proposed Distribution by Capital A, as the case may be, so as to not trigger the take-over obligations.

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11.3 NA per share and gearing

Upon completion of the Proposed Acquisitions, the New Aviation Group's financial position will reflect the consolidated financial position of our Group and the Target Companies.

For illustrative purposes only, based on the latest audited consolidated financial statements of our Company for the FYE 31 December 2023 and assuming that the Proposals and Proposed Granting of Subscription Options had been effected on 31 December 2023, being the end of the FYE 31 December 2023, the pro forma effects of the Proposals and Proposed Granting of Subscription Options on the consolidated NA per share and gearing of our Company are as follows:-

Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share

	Audited as at 31 December 2023 (RM'000)	**A(I) After the Proposed Issuance of Free Warrants (RM'000)**	**A(II) After A(I) and the Proposed Private Placement (RM'000)**	**A(III) After A(II) and the Proposed AAAGL Acquisition[(1)] (RM'000)**	**A(IV) After A(III) and the Proposed AAB Acquisition (RM'000)**
Share capital	51,029	51,029	1,051,029[(2)]	4,097,183	4,097,183
Capital reserve	-	-	-	931,700[(3)]	931,700
Merger deficit	-	-	-	(915,501)[(4)]	(915,501)
Foreign exchange reserve	(5,582)	(5,582)	(5,582)	53,833	53,833
Other reserves	-	-	-	(21,082)[(5)]	(21,082)
Retained earnings / (Accumulated losses)[(6)]	70,728	70,328	40,498	(3,565,158)[(7)]	(3,571,168)[(8)]
Shareholders' funds / NA	**116,175**	**115,775**	**1,085,945**	**580,975**	**574,965**
No. of Shares in issue ('000)	447,073	447,073	1,447,073	3,754,765	3,754,765
NA per Share (RM)	0.26	0.26	0.75	0.15	0.15
Total borrowings, debentures and lease liabilities (RM'000)	1,512,025	1,512,025	1,512,025	7,828,655[(9)]	24,492,686[(10)]
Deposits, bank and cash balances (RM'000)[(6)]	57,689	57,289	1,027,459	1,224,428	1,767,309[(10)]
Net borrowings, debentures and lease liabilities (RM'000)	1,454,336	1,454,736	484,566	6,604,227	22,725,377
Gearing (times)	13.02	13.06	1.39	13.48	42.60
Net gearing (times)	12.52	12.57	0.45	11.37	39.52

	A(V) After A(IV) and the Proposed Granting of Subscription Options (RM'000)	A(VI) After A(V) and the Proposed Share Capital Reduction[11] (RM'000)	A(VII) After A(VI) and assuming full subscription of the Subscription Shares (RM'000)	A(VIII) After A(VII) and assuming full exercise of the Warrants (RM'000)
Share capital	4,097,183	100,000	694,755[12]	989,823[13]
Capital reserve	931,700	1,357,115	1,357,115	1,357,115
Merger deficit	(915,501)	(915,501)	(915,501)	(915,501)
Foreign exchange reserve	53,833	53,833	53,833	53,833
Other reserves	(21,082)	(21,082)	(21,082)	(21,082)
Retained earnings / (Accumulated losses)[6]	(3,571,448)	-	-	-
Shareholders' funds / NA	**574,685**	**574,365**	**1,169,120**	**1,464,188**
No. of Shares in issue ('000)	3,754,765	3,754,765	4,205,337	4,428,873
NA per Share (RM)	0.15	0.15	0.28	0.33
Total borrowings, debentures and lease liabilities (RM'000)	24,492,686	24,492,686	24,492,686	24,492,686
Deposits, bank and cash balances (RM'000)[6]	1,767,029	1,766,709	2,361,464	2,656,532
Net borrowings, debentures and lease liabilities (RM'000)	22,725,657	22,725,977	22,131,222	21,836,154
Gearing (times)	42.62	42.64	20.95	16.73
Net gearing (times)	39.54	39.57	18.93	14.91

Notes:-

(1) *The Proposed AAAGL Acquisition has been accounted for as a reverse acquisition, following the guidelines outlined in Malaysian Financial Reporting Standards 3 Business Combinations. Even though our Company is the legal acquirer, for accounting purposes, AAAGL is considered the acquirer.*

(2) *Assuming a total of 1,000,000,000 Placement Shares are issued at the minimum issue price of RM1.00 per Placement Share as determined by our Company to raise gross proceeds of RM1,000.00 million.*

(3) *The capital reserve of RM931.70 million arises from the reverse acquisition accounting in respect of the Proposed AAAGL Acquisition.*

(4) *After taking into consideration the AAAGL Group's merger deficit of RM915.50 million as at 31 December 2023 which arises as a result of AAI, PAA, AAID and IAA becoming subsidiaries of AAAGL during the FYE 31 December 2023 as discussed in Section 1 of Appendix IV of this Circular. The business combinations of AAI, PAA, AAID and IAA were accounted for under the pooling of interest method and these have resulted in the merger deficit of RM915.50 million in the AAAGL Group.*

(5) *After taking into consideration the AAAGL Group's share option reserves of a debit balance of RM21.57 million (relating to employees share options granted by Capital A to certain eligible employees of the AAAGL Group) and surplus reserves of RM0.49 million maintained by AirAsia (Guangzhou) Aviation Service Limited Company, a wholly-owned subsidiary of AAAGL.*

(6) *After deducting estimated expenses of RM0.40 million (Proposed Issuance of Free Warrants), RM29.83 million (Proposed Private Placement), RM8.55 million (Proposed AAAGL Acquisition), RM6.01 million (Proposed AAB Acquisition), RM0.28 million (Proposed Granting of Subscription Options) and RM0.32 million (Proposed Share Capital Reduction).*

(7) *The accumulated losses of RM3,565.16 million arise from the reverse acquisition accounting in respect of the Proposed AAAGL Acquisition and after deducting estimated expenses for the Proposed AAAGL Acquisition of RM8.55 million. Pursuant to the reverse acquisition accounting, the accumulated losses of our Group will reflect the accumulated losses of the AAAGL Group (after adjusting for mainly the acquisition of 100% equity interest in AA Com Travel Philippines Inc. and the Vendor's Pre-Completion Restructuring).*

(8) The business combination of the AAB Group will be accounted for using acquisition method. The only pro forma effect of the Proposed AAB Acquisition on the shareholders' funds / NA of our Group is the estimated expenses of RM6.01 million for the Proposed AAB Acquisition.
(9) After taking into consideration the AAAGL Group's total borrowings, debentures and lease liabilities of RM6,316.63 million as at 31 December 2023.
(10) After taking into consideration the following:-
- *(i) consolidation of the AAB Group's total borrowings and lease liabilities of RM16,283.29 million and deposits, bank and cash balances of RM168.49 million respectively as at 31 December 2023;*
- *(ii) pre-payment / repayment of the AAB Group's term loan facilities of RM300.00 million using proceeds from the Proposed Private Placement; and*
- *(iii) proceeds received from the issuance of bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, in August 2024, net of refinancing of lease liabilities and transaction costs. The proposed use of proceeds raised from the issuance of bonds is as set out in Section 10 of Appendix V of this Circular.*

(11) Pursuant to the Proposed Share Capital Reduction, the issued share capital of our Company will be reduced from RM4,097.18 million to RM100.00 million, giving rise to a credit of RM3,997.18 million. The credit will be used to fully eliminate the accumulated losses of RM3,571.77 million (after including estimated expenses of RM0.32 million for the Proposed Share Capital Reduction) and the balance credit of RM425.41 million will be credited to a reserve account / capital reserve.
(12) Assuming a total of 450,571,813 Subscription Shares are subscribed at an illustrative issue price of RM1.32 per Subscription Share.
(13) Assuming a total of 223,536,401 Warrants are exercised at an illustrative exercise price of RM1.32 per Warrant.

Pro forma B: Based on an illustrative issue price of RM1.13 per Placement Share

	Audited as at 31 December 2023 (RM'000)	**B(I) After the Proposed Issuance of Free Warrants (RM'000)**	**B(II) After B(I) and the Proposed Private Placement (RM'000)**	**B(III) After B(II) and the Proposed AAAGL Acquisition[1] (RM'000)**	**B(IV) After B(III) and the Proposed AAB Acquisition (RM'000)**
Share capital	51,029	51,029	1,051,029[2]	4,097,183	4,097,183
Capital reserve	-	-	-	931,700[3]	931,700
Merger deficit	-	-	-	(915,501)[4]	(915,501)
Foreign exchange reserve	(5,582)	(5,582)	(5,582)	53,833	53,833
Other reserves	-	-	-	(21,082)[5]	(21,082)
Retained earnings / (Accumulated losses)[6]	70,728	70,328	40,498	(3,565,158)[7]	(3,571,168)[8]
Shareholders' funds / NA	**116,175**	**115,775**	**1,085,945**	**580,975**	**574,965**
No. of Shares in issue ('000)	447,073	447,073	1,332,029	3,639,721	3,639,721
NA per Share (RM)	0.26	0.26	0.82	0.16	0.16
Total borrowings, debentures and lease liabilities (RM'000)	1,512,025	1,512,025	1,512,025	7,828,655[9]	24,492,686[10]
Deposits, bank and cash balances (RM'000)[6]	57,689	57,289	1,027,459	1,224,428	1,767,309[10]
Net borrowings, debentures and lease liabilities (RM'000)	1,454,336	1,454,736	484,566	6,604,227	22,725,377
Gearing (times)	13.02	13.06	1.39	13.48	42.60
Net gearing (times)	12.52	12.57	0.45	11.37	39.52

	B(V) After B(IV) and the Proposed Granting of Subscription Options (RM'000)	B(VI) After B(V) and the Proposed Share Capital Reduction[11] (RM'000)	B(VII) After B(VI) and assuming full subscription of the Subscription Shares (RM'000)	B(VIII) After B(VII) and assuming full exercise of the Warrants (RM'000)
Share capital	4,097,183	100,000	676,532[12]	971,600[13]
Capital reserve	931,700	1,357,115	1,357,115	1,357,115
Merger deficit	(915,501)	(915,501)	(915,501)	(915,501)
Foreign exchange reserve	53,833	53,833	53,833	53,833
Other reserves	(21,082)	(21,082)	(21,082)	(21,082)
Retained earnings / (Accumulated losses)[6]	(3,571,448)	-	-	-
Shareholders' funds / NA	**574,685**	**574,365**	**1,150,897**	**1,445,965**
No. of Shares in issue ('000)	3,639,721	3,639,721	4,076,487	4,300,024
NA per Share (RM)	0.16	0.16	0.28	0.34
Total borrowings, debentures and lease liabilities (RM'000)	24,492,686	24,492,686	24,492,686	24,492,686
Deposits, bank and cash balances (RM'000)[6]	1,767,029	1,766,709	2,343,241	2,638,309
Net borrowings, debentures and lease liabilities (RM'000)	22,725,657	22,725,977	22,149,445	21,854,377
Gearing (times)	42.62	42.64	21.28	16.94
Net gearing (times)	39.54	39.57	19.25	15.11

Notes:-

(1) The Proposed AAAGL Acquisition has been accounted for as a reverse acquisition, following the guidelines outlined in Malaysian Financial Reporting Standards 3 Business Combinations. Even though our Company is the legal acquirer, for accounting purposes, AAAGL is considered the acquirer.

(2) Assuming a total of 884,955,752 Placement Shares are issued at an illustrative issue price of RM1.13 per Placement Share to raise gross proceeds of approximately RM1,000.00 million.

(3) The capital reserve of RM931.70 million arises from the reverse acquisition accounting in respect of the Proposed AAAGL Acquisition.

(4) After taking into consideration the AAAGL Group's merger deficit of RM915.50 million as at 31 December 2023 which arises as a result of AAI, PAA, AAID and IAA becoming subsidiaries of AAAGL during the FYE 31 December 2023 as discussed in Section 1 of Appendix IV of this Circular. The business combinations of AAI, PAA, AAID and IAA were accounted for under the pooling of interest method and these have resulted in the merger deficit of RM915.50 million in the AAAGL Group.

(5) After taking into consideration the AAAGL Group's share option reserves of a debit balance of RM21.57 million (relating to employees share options granted by Capital A to certain eligible employees of the AAAGL Group) and surplus reserves of RM0.49 million maintained by AirAsia (Guangzhou) Aviation Service Limited Company, a wholly-owned subsidiary of AAAGL.

(6) After deducting estimated expenses of RM0.40 million (Proposed Issuance of Free Warrants), RM29.83 million (Proposed Private Placement), RM8.55 million (Proposed AAAGL Acquisition), RM6.01 million (Proposed AAB Acquisition), RM0.28 million (Proposed Granting of Subscription Options) and RM0.32 million (Proposed Share Capital Reduction).

(7) The accumulated losses of RM3,565.16 million arise from the reverse acquisition accounting in respect of the Proposed AAAGL Acquisition and after deducting estimated expenses for the Proposed AAAGL Acquisition of RM8.55 million. Pursuant to the reverse acquisition accounting, the accumulated losses of our Group will reflect the accumulated losses of the AAAGL Group (after adjusting for mainly the acquisition of 100% equity interest in AA Com Travel Philippines Inc. and the Vendor's Pre-Completion Restructuring).

(8) The business combination of the AAB Group will be accounted for using acquisition method. The only pro forma effect of the Proposed AAB Acquisition on the shareholders' funds / NA of our Group is the estimated expenses of RM6.01 million for the Proposed AAB Acquisition.

(9) After taking into consideration the AAAGL Group's total borrowings, debentures and lease liabilities of RM6,316.63 million as at 31 December 2023.

(10) After taking into consideration the following:-

(i) consolidation of the AAB Group's total borrowings and lease liabilities of RM16,283.29 million and deposits, bank and cash balances of RM168.49 million respectively as at 31 December 2023;

(ii) pre-payment / repayment of the AAB Group's term loan facilities of RM300.00 million using proceeds from the Proposed Private Placement; and

(iii) proceeds received from the issuance of bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, in August 2024, net of refinancing of lease liabilities and transaction costs. The proposed use of proceeds raised from the issuance of bonds is as set out in Section 10 of Appendix V of this Circular.

(11) Pursuant to the Proposed Share Capital Reduction, the issued share capital of our Company will be reduced from RM4,097.18 million to RM100.00 million, giving rise to a credit of RM3,997.18 million. The credit will be used to fully eliminate the accumulated losses of RM3,571.77 million (after including estimated expenses of RM0.32 million for the Proposed Share Capital Reduction) and the balance credit of RM425.41 million will be credited to a reserve account / capital reserve.

(12) Assuming a total of 436,766,503 Subscription Shares are subscribed at an illustrative issue price of RM1.32 per Subscription Share.

(13) Assuming a total of 223,536,401 Warrants are exercised at an illustrative exercise price of RM1.32 per Warrant.

11.4 Earnings and EPS

Upon completion of the Proposed Acquisitions, our Company will consolidate the earnings of the Target Companies.

For illustrative purposes only, based on the latest audited consolidated financial statements of our Company for the FYE 31 December 2023 and assuming that the Proposals and Proposed Granting of Subscription Options had been effected on 1 January 2023, being the beginning of the FYE 31 December 2023, the pro forma effects of the Proposals and Proposed Granting of Subscription Options on the consolidated earnings and EPS of our Company are as follows:-

Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share

	Audited for the FYE 31 December 2023	A(I) After the Proposed Issuance of Free Warrants	A(II) After A(I) and the Proposed Private Placement	A(III) After A(II) and the Proposed AAAGL Acquisition	A(IV) After A(III) and the Proposed AAB Acquisition
Profit after taxation attributable to the owners of our Company (RM'000)(1)	331,505(2)	331,105	301,275	1,429,909(3)	4,906,650(4)
Weighted average number of Shares in issue ('000)	447,073	447,073	1,447,073(5)	3,754,765	3,754,765
EPS (sen)	74.15	74.06	20.82	38.08	130.68

	A(V) After A(IV) and the Proposed Granting of Subscription Options	A(VI) After A(V) and the Proposed Share Capital Reduction	A(VII) After A(VI) and assuming full subscription of the Subscription Shares	A(VIII) After A(VII) and assuming full exercise of the Warrants
Profit after taxation attributable to the owners of our Company (RM'000)(1)	4,906,370	4,906,050	4,906,050	4,906,050
Weighted average number of Shares in issue ('000)	3,754,765	3,754,765	4,205,337(6)	4,428,873(7)
EPS (sen)	130.67	130.66	116.66	110.77

Notes:-

(1) After deducting estimated expenses of RM0.40 million (Proposed Issuance of Free Warrants), RM29.83 million (Proposed Private Placement), RM8.55 million (Proposed AAAGL Acquisition), RM6.01 million (Proposed AAB Acquisition), RM0.28 million (Proposed Granting of Subscription Options) and RM0.32 million (Proposed Share Capital Reduction).

(2) Includes reversal of additional loss in the investment in IAAX of RM223.25 million and other income of RM239.59 million comprising reversal of provision for travel voucher, reversal of impairment loss on amount due from an associate and reversal of provision for doubtful debt.

(3) After accounting for the consolidated profit after taxation attributable to the owners of AAAGL for the FYE 31 December 2023 amounting to approximately RM1,137.18 million which includes a gain on remeasurement of previously held interest in associate of RM1,547.87 million.

(4) After accounting for the (i) consolidated profit after taxation attributable to the owners of AAB for the FYE 31 December 2023 amounting to approximately RM3,620.87 million which includes a gain on disposal of "AirAsia" brand of RM4,500.00 million, (ii) annual interest savings (after taxation) of RM34.19 million based on the interest rate of 11.75% of the AAB Group's term loan facilities to be repaid using proceeds from the Proposed Private Placement and (iii) annual interest expenses (after taxation) and annual amortisation of transaction costs of approximately RM171.97 million as well as transaction costs directly charged to profit or loss of RM0.34 million in relation to the issuance of the bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, in August 2024.

(5) Assuming a total of 1,000,000,000 Placement Shares are issued at the minimum issue price of RM1.00 per Placement Share as determined by our Company to raise gross proceeds of RM1,000.00 million.

(6) Assuming a total of 450,571,813 Subscription Shares are subscribed at an illustrative issue price of RM1.32 per Subscription Share.

(7) Assuming a total of 223,536,401 Warrants are exercised at an illustrative exercise price of RM1.32 per Warrant.

Pro forma B: Based on an illustrative issue price of RM1.13 per Placement Share

	Audited for the FYE 31 December 2023	B(I) After the Proposed Issuance of Free Warrants	B(II) After B(I) and the Proposed Private Placement	B(III) After B(II) and the Proposed AAAGL Acquisition	B(IV) After B(III) and the Proposed AAB Acquisition
Profit after taxation attributable to the owners of our Company (RM'000)[(1)]	331,505[(2)]	331,105	301,275	1,429,909[(3)]	4,906,650[(4)]
Weighted average number of Shares in issue ('000)	447,073	447,073	1,332,029[(5)]	3,639,721	3,639,721
EPS (sen)	74.15	74.06	22.62	39.29	134.81

	B(V) After B(IV) and the Proposed Granting of Subscription Options	B(VI) After B(V) and the Proposed Share Capital Reduction	B(VII) After B(VI) and assuming full subscription of the Subscription Shares	B(VIII) After B(VII) and assuming full exercise of the Warrants
Profit after taxation attributable to the owners of our Company (RM'000)[(1)]	4,906,370	4,906,050	4,906,050	4,906,050
Weighted average number of Shares in issue ('000)	3,639,721	3,639,721	4,076,487[(6)]	4,300,024[(7)]
EPS (sen)	134.80	134.79	120.35	114.09

Notes:-

(1) After deducting estimated expenses of RM0.40 million (Proposed Issuance of Free Warrants), RM29.83 million (Proposed Private Placement), RM8.55 million (Proposed AAAGL Acquisition), RM6.01 million (Proposed AAB Acquisition), RM0.28 million (Proposed Granting of Subscription Options) and RM0.32 million (Proposed Share Capital Reduction).

(2) Includes reversal of additional loss in the investment in IAAX of RM223.25 million and other income of RM239.59 million comprising reversal of provision for travel voucher, reversal of impairment loss on amount due from an associate and reversal of provision for doubtful debt.

(3) After accounting for the consolidated profit after taxation attributable to the owners of AAAGL for the FYE 31 December 2023 amounting to approximately RM1,137.18 million which includes a gain on remeasurement of previously held interest in associate of RM1,547.87 million.

(4) After accounting for the (i) consolidated profit after taxation attributable to the owners of AAB for the FYE 31 December 2023 amounting to approximately RM3,620.87 million which includes a gain on disposal of "AirAsia" brand of RM4,500.00 million, (ii) annual interest savings (after taxation) of RM34.19 million based on the interest rate of 11.75% of the AAB Group's term loan facilities to be repaid using proceeds from the Proposed Private Placement and (iii) annual interest expenses (after taxation) and annual amortisation of transaction costs of approximately RM171.97 million as well as transaction costs directly charged to profit or loss of RM0.34 million in relation to the issuance of the bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, in August 2024.

(5) Assuming a total of 884,955,752 Placement Shares are issued at an illustrative issue price of RM1.13 per Placement Share to raise gross proceeds of approximately RM1,000.00 million.

(6) Assuming a total of 436,766,503 Subscription Shares are subscribed at an illustrative issue price of RM1.32 per Subscription Share.

(7) Assuming a total of 223,536,401 Warrants are exercised at an illustrative exercise price of RM1.32 per Warrant.

The computation of pro forma effects above is strictly for illustrative purposes only. It is not an indication of future financial performance of the New Aviation Group which will be dependent on, amongst others, the outcome of the New Aviation Group's future business plans and strategies, use of proceeds raised from issuance of Placement Shares, new Shares pursuant to the exercise of the Warrants and Subscription Shares as well as the bonds issued by AirAsia RB 1 Ltd, outlook of the aviation industry as well as prospects of the Target Companies and the New Aviation Group.

11.5 Convertible securities

As at the LPD, our Company does not have any outstanding convertible securities in issue.

The Proposed Private Placement, Proposed Acquisitions, Proposed Share Capital Reduction and Proposed Granting of Subscription Options will not give rise to any adjustment to the exercise price and the number of Warrants pursuant to the Deed Poll.

12. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposed AAAGL Acquisition pursuant to Paragraph 10.02(g) of the Listing Requirements is 554.57%.

The highest percentage ratio applicable to the Proposed AAB Acquisition pursuant to Paragraph 10.02(g) of the Listing Requirements is 745.81%.

By applying the rule of aggregation pursuant to Paragraph 10.12(2) of the Listing Requirements as the Proposed AAAGL Acquisition and Proposed AAB Acquisition involve transactions entered into with the same party (i.e. Capital A), the highest percentage ratio applicable to the Proposed Acquisitions pursuant to Paragraph 10.12(2) of the Listing Requirements is 765.35%.

For the avoidance of doubt, the Proposed Acquisitions are not expected to result in a significant change in the business direction or policy of our Company pursuant to the Equity Guidelines issued by the Securities Commission Malaysia.

13. APPROVALS REQUIRED

The Proposals are subject to the following being obtained:-

(i) the approval from Bursa Securities for the following:-

(a) admission of up to 223,536,401 Warrants to be issued pursuant to the Proposed Issuance of Free Warrants to the Official List;

(b) listing and quotation of up to 223,536,401 Warrants on the Main Market of Bursa Securities;

(c) listing and quotation of up to 223,536,401 new Shares to be issued pursuant to the exercise of the Warrants on the Main Market of Bursa Securities;

(d) listing and quotation of up to 1,000,000,000 Placement Shares to be issued pursuant to the Proposed Private Placement on the Main Market of Bursa Securities; and

(e) listing and quotation of 2,307,692,307 Consideration Shares to be issued pursuant to the Proposed AAAGL Acquisition on the Main Market of Bursa Securities;

(ii) your approval for the Proposals at an EGM to be held;

(iii) the confirmation from the High Court for the Proposed Share Capital Reduction pursuant to Section 116 of the Act; and

(iv) the approvals / waivers / consents from any other relevant authorities and/or parties, including those set out in Section 3.1 of Appendix II(A) of this Circular and Section 3.1 of Appendix II(B) of this Circular.

The Proposed Granting of Subscription Options is subject to the following being obtained:-

(i) the approval from Bursa Securities for the listing and quotation of up to 450,571,813 Subscription Shares to be issued pursuant to the exercise of the Subscription Options on the Main Market of Bursa Securities;

(ii) your approval for the Proposed Granting of Subscription Options at an EGM to be held; and

(iii) the approvals / waivers / consents from any other relevant authorities and/or parties, if required.

The approval from Bursa Securities for the Proposals and Proposed Granting of Subscription Options was obtained vide its letter dated 11 September 2024, subject to the following conditions:-

Conditions imposed		Status of compliance
(i)	AAX and Interpac must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposals and Proposed Granting of Subscription Options	To be complied
(ii)	AAX or Interpac is required to furnish Bursa Securities with a certified true copy of the resolution passed by shareholders in general meeting approving the Proposals and Proposed Granting of Subscription Options	To be complied
(iii)	AAX and Interpac are required to inform Bursa Securities upon completion of the Proposals and Proposed Granting of Subscription Options	To be complied
(iv)	AAX is required to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposals and Proposed Granting of Subscription Options are completed	To be complied
(v)	AAX and Interpac are required to provide a written confirmation that the terms of the Warrants are in compliance with Paragraph 6.54(3) of the Listing Requirements	To be complied
(vi)	Interpac is required to furnish Bursa Securities with details of the placees in accordance with Paragraph 6.15 of the Listing Requirements as soon as practicable after each tranche of placement and before the listing of the new shares to be issued pursuant to the Proposed Private Placement	To be complied
(vii)	AAX must comply with the public security holding spread requirements pursuant to Paragraph 8.02(1) of the Listing Requirements at all times upon listing and quotation of the Placement Shares, Consideration Shares and Subscription Shares respectively	To be complied

Conditions imposed		Status of compliance
(viii)	AAX is required to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of Warrants and Subscription Options respectively as at the end of each quarter together with a detailed computation of listing fees payable	To be complied

14. CONDITIONALITY OF THE PROPOSALS AND PROPOSED GRANTING OF SUBSCRIPTION OPTIONS

The Proposed Issuance of Free Warrants is conditional upon the Proposed AAAGL Acquisition and Proposed AAB Acquisition but not *vice versa*. The Proposed Issuance of Free Warrants is not conditional upon the Proposed Private Placement and vice versa.

The Proposed AAAGL Acquisition is conditional upon the Proposed Private Placement but not *vice versa*. The Proposed AAB Acquisition is conditional upon the Proposed Private Placement but not *vice versa*. The Proposed AAAGL Acquisition is not conditional upon the Proposed AAB Acquisition and vice versa. Notwithstanding that, it is in the best interests of our Company to complete both the Proposed AAAGL Acquisition and Proposed AAB Acquisition and realise the full benefits as set out in Section 8.3, Part A of this Circular.

As part of the conditions precedent to the SSPAs, the Proposed AAAGL Acquisition and Proposed AAB Acquisition are conditional upon the approvals being obtained from:-

(i) our Shareholders for the Proposed AAAGL Acquisition and Proposed AAB Acquisition respectively; and

(ii) the shareholders of the Vendor and holders of the Capital A RCUIDS for the proposed disposal of AAAGL by Capital A and Proposed Distribution by Capital A, and proposed disposal of AAB by Capital A respectively.

Hence, the conditionality of the Proposed AAAGL Acquisition as set out in this Section 14 shall similarly apply for the proposed disposal of AAAGL by Capital A and Proposed Distribution by Capital A. The conditionality of the Proposed AAB Acquisition as set out in this Section 14 shall similarly apply for the proposed disposal of AAB by Capital A.

The Proposed Share Capital Reduction is not conditional upon the Proposed Issuance of Free Warrants, Proposed Private Placement, Proposed AAAGL Acquisition and Proposed AAB Acquisition and vice versa.

The Proposals are not conditional upon the Proposed Granting of Subscription Options and *vice versa*.

The Proposals and Proposed Granting of Subscription Options are not conditional upon any other corporate exercise / scheme undertaken or to be undertaken by our Company.

For the avoidance of doubt, the abovementioned conditionality of the Proposals and Proposed Granting of Subscription Options shall only apply in terms of the Shareholders' approval and shall not apply to the manner of implementation of the Proposals and Proposed Granting of Subscription Options.

The Proposals and Proposed Granting of Subscription Options is intended to be implemented in the following sequence:-

(1) Proposed Issuance of Free Warrants;
(2) Proposed Private Placement;
(3) Proposed AAAGL Acquisition[(1)] and Proposed Distribution by Capital A;
(4) Proposed AAB Acquisition[(1)];
(5) Proposed Granting of Subscription Options; and finally
(6) Proposed Share Capital Reduction.

Note:-

(1) Prior to the completion of the Proposed Acquisitions, Capital A and its group of companies will undertake the Vendor's Pre-Completion Restructuring.

15. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED

15.1 Proposed Issuance of Free Warrants

None of our Directors, Major Shareholders, chief executive of our Company and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Issuance of Free Warrants other than their respective entitlements, if any, as our Shareholders under the Proposed Issuance of Free Warrants, of which all other Shareholders on the respective entitlement dates are similarly entitled to on a pro-rata basis.

15.2 Proposed Acquisitions and Proposed Private Placement

Save as disclosed below, none of our Directors, Major Shareholders, chief executive of our Company and/or persons connected with them have any interest, direct or indirect, in the Proposed Acquisitions:-

(i) Tan Sri Tony Fernandes, a Major Shareholder of our Company, is deemed interested in the Proposed Acquisitions by virtue of him being the Non-Independent Executive Director and Chief Executive Officer and a major shareholder of Capital A, being the Vendor for the Proposed Acquisitions;

(ii) Dato' Fam Lee Ee, the Non-Independent Non-Executive Chairman of our Company, is deemed interested in the Proposed Acquisitions by virtue of him being the Senior Independent Non-Executive Director of Capital A, being the Vendor for the Proposed Acquisitions;

(iii) Datuk Kamarudin, a Non-Independent Executive Director and a Major Shareholder of our Company, is deemed interested in the Proposed Acquisitions by virtue of him being the Non-Independent Executive Chairman and a major shareholder of Capital A, being the Vendor for the Proposed Acquisitions;

(iv) AAB, a Major Shareholder of our Company, is deemed interested in the Proposed Acquisitions by virtue of it being a wholly-owned subsidiary of Capital A, being the Vendor for the Proposed Acquisitions. For the avoidance of doubt, AAB is the target company under the Proposed AAB Acquisition. Prior to the completion of the Proposed AAB Acquisition, AAB will sell and transfer its entire shareholding in our Company to Capital A pursuant to the AAX Stake Transfer;

(v) Capital A, a Major Shareholder of our Company, is deemed interested in the Proposed Acquisitions by virtue of it being the Vendor for the Proposed Acquisitions; and

(vi) Tune Group Sdn Bhd, a Major Shareholder of our Company, is deemed interested in the Proposed Acquisitions by virtue of it being a person connected with Tan Sri Tony Fernandes and Datuk Kamarudin who hold more than 20% equity interest in Tune Group Sdn Bhd.

In view that the gross proceeds to be raised from the Proposed Private Placement are mainly intended to be used as additional funds for the New Aviation Group's aviation businesses as well as the conditionality of the Proposals as set out in Section 14, Part A of this Circular, the abovementioned persons are also deemed interested in the Proposed Private Placement.

Accordingly, our Interested Directors have abstained and will continue to abstain from deliberating and voting on the Proposed Acquisitions and Proposed Private Placement at our relevant Board meetings.

Our Interested Directors and Interested Major Shareholders will abstain and they have undertaken that they will ensure that persons connected with them will abstain from voting in respect of their respective direct and/or indirect shareholdings in our Company, if any, on the resolutions approving the Proposed Acquisitions and Proposed Private Placement at the EGM of our Company to be convened.

As at the LPD, the respective shareholdings of our Interested Directors and Interested Major Shareholders in our Company as follows:-

	Direct		Indirect	
Name	**No. of Shares**	**%(1)**	**No. of Shares**	**%(1)**
Tan Sri Tony Fernandes	11,158,722	2.50	131,033,136(2)	29.31
Dato' Fam Lee Ee	-	-	-	-
Datuk Kamarudin	37,070,993	8.29	131,033,136(2)	29.31
AAB	57,072,850	12.77	-	-
Capital A	-	-	57,072,850(3)	12.77
Tune Group Sdn Bhd	73,960,286	16.54	-	-

Notes:-

(1) Based on 447,072,803 issued Shares as at the LPD.

(2) Deemed interested by virtue of his interests in AAB and Tune Group Sdn Bhd pursuant to Section 8 of the Act.

(3) Deemed interested by virtue of its interest in AAB pursuant to Section 8 of the Act.

15.3 Proposed Share Capital Reduction and Proposed Granting of Subscription Options

None of our Directors, Major Shareholders, chief executive of our Company and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Share Capital Reduction and Proposed Granting of Subscription Options.

16. TRANSACTIONS WITH THE SAME RELATED PARTIES FOR THE PRECEDING 12 MONTHS

Save as disclosed below and the recurrent related party transactions set out in the circular to our Shareholders dated 30 April 2024 for which shareholders' mandates have been sought or which are not subject to disclosure pursuant to Paragraph 10.09(1)(b) of the Listing Requirements, our Company and our subsidiaries have not entered into any transaction with our Interested Directors, Interested Major Shareholders and/or persons connected with them for the past 12 months up to the LPD:-

(i) Proposed Acquisitions;

(ii) On 2 November 2023, our Company had entered into a passenger charter and ancillary services agreement with AAB where our Company will perform passenger charter and ancillary services in relation to the charter of the Malaysian Battalion (MALBATT) 850 forces to Beirut, Lebanon (vice versa) for the United Nations Interim Force in Lebanon's (UNIFIL) peacekeeping mission commencing from 1 October 2023 to 30 September 2026 for a contract sum of RM29,703,600; and

(iii) On 5 December 2023, our Company had entered into an aircraft lease agreement with Asia Aviation Capital Limited, a wholly-owned subsidiary of AAB, for the lease of an aircraft bearing manufacturer's serial number 1596 for a period of 1 year from delivery date of the aircraft for an estimated total contract value of RM30,542,306.73, inclusive of lease rental and maintenance reserves.

17. ADVISERS

17.1 Principal Adviser and Placement Agent

Interpac has been appointed as the Principal Adviser to our Company for the Proposals and Proposed Granting of Subscription Options and the Placement Agent for the Proposed Private Placement.

17.2 Independent Adviser

As the Proposed Acquisitions are related party transactions pursuant to Paragraph 10.08 of the Listing Requirements, WYNCORP has been appointed to act as the Independent Adviser to undertake the following in relation to the Proposed Acquisitions:-

(i) comment as to:-

  (a) whether the Proposed Acquisitions are fair and reasonable in so far as our Shareholders are concerned; and

  (b) whether the Proposed Acquisitions are to the detriment of our non-interested Shareholders,

  and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;

(ii) advise our non-interested Shareholders whether they should vote in favour of the Proposed Acquisitions; and

(iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in relation to paragraphs (i) and (ii) above.

The IAL from WYNCORP is set out in Part B of this Circular. You should read and carefully consider the contents of this Circular (including the IAL) before voting on the resolutions to give effect to the Proposed Acquisitions at our forthcoming EGM.

18. AUDIT COMMITTEE'S STATEMENT

The Audit Committee of our Company, after having considered all relevant aspects of the Proposals (including but not limited to the rationale and benefits of the Proposals, basis and justification for the Total Purchase Consideration, issue price of the Consideration Shares and Placement Shares as well as the exercise price of the Warrants, use of proceeds from the Proposed Private Placement, prospects of the Target Companies and the New Aviation Group as well as outlook of the aviation industry, risks of the Proposals, effects of the Proposals, salient terms of the SSPAs as well as the advice from the Independent Adviser), is of the opinion that the Proposed Acquisitions are:-

(i) in the best interest of our Company;

(ii) fair, reasonable and on normal commercial terms; and

(iii) not detrimental to the interest of our non-interested Shareholders.

19. DIRECTORS' STATEMENT AND RECOMMENDATION

Our Board has considered all relevant aspects of the Proposals (including but not limited to the rationale and benefits of the Proposals, basis and justification for the Total Purchase Consideration, issue price of the Consideration Shares and Placement Shares as well as the exercise price of the Warrants, use of proceeds from the Proposed Private Placement, prospects of the Target Companies and the New Aviation Group as well as outlook of the aviation industry, risks of the Proposals, effects of the Proposals and salient terms of the SSPAs).

In addition, our Board has considered all relevant aspects of the Proposed Granting of Subscription Options (including but not limited to the rationale and benefits of the Proposed Granting of Subscription Options, basis and justification for the issue price of the Subscription Shares as well as effects of the Proposed Granting of Subscription Options).

19.1 Proposed Issuance of Free Warrants, Proposed Share Capital Reduction and Proposed Granting of Subscription Options

Having considered the above, our Board is of the opinion that the Proposed Issuance of Free Warrants, Proposed Share Capital Reduction and Proposed Granting of Subscription Options are in the best interests of our Company.

Accordingly, our Board recommends that you vote in favour of the resolutions to give effect to the Proposed Issuance of Free Warrants, Proposed Share Capital Reduction and Proposed Granting of Subscription Options at our forthcoming EGM.

19.2 Proposed Private Placement and Proposed Acquisitions

Having considered the above and the advice from the Independent Adviser, our Board (save for our Interested Directors) is of the opinion that the Proposed Private Placement and Proposed Acquisitions are in the best interests of our Company.

Accordingly, our Board (save for our Interested Directors) recommends that you vote in favour of the resolutions to give effect to the Proposed Private Placement and Proposed Acquisitions at our forthcoming EGM.

In arriving at the opinion that the Proposed Acquisitions are in the best interests of our Company, our Board (save for our Interested Directors) had rounds of deliberation and considered all relevant aspects of the Proposals, including the following:-

(i) the Proposed Acquisitions allow all the airline entities operating under the "AirAsia" brand (including "AirAsia X" brand) to be housed together, forming an enlarged aviation group comprising the New Aviation Group. The New Aviation Group will operate and provide a full spectrum of short, medium and long-haul low-cost air transportation services, with domestic flights and international flights from Malaysia, Thailand, the Philippines, Indonesia and Cambodia to numerous destination countries;

(ii) the Proposed Acquisitions allow the New Aviation Group to achieve elevated synergistic benefits through centralised decision-making and more co-ordinated network plans as well as to achieve continued growth and expansion for all "AirAsia"-branded airlines, backed by about 400 new aircraft deliveries from Airbus over the next decade and an established AirAsia Ecosystem and "AirAsia" brand;

(iii) the Proposed Acquisitions present an opportunity to you to own a part of the New Aviation Group and to bear the risks and rewards associated with ownership of the enlarged aviation group amidst the anticipated recovery of international air traffic post COVID-19. With the respective industry track record of each airline to be housed under the New Aviation Group, as well as the synergistic benefits from the AirAsia Ecosystem and competitive strengths of the New Aviation Group, the enlarged aviation group is well-positioned to capitalise on the anticipated recovery of air travel moving forward;

(iv) financial information of the AAAGL Group and AAB Group as set out in the accountants' report of AAAGL in Appendix IX of this Circular and accountants' report of AAB in Appendix X of this Circular respectively as well as the pro forma financial effects of the Proposed Acquisitions on our Group's NA and gearing as set out in Section 11.3, Part A of this Circular, including the following:-

    (a) the AAAGL Group has audited negative shareholders' funds of RM2,234.00 million as at 31 December 2023 (AAB Group: negative shareholders' fund of RM1,504.69 million);

    (b) our shareholders' funds of RM1,085.95 million (with retained earnings of RM40.50 million) after the completion of the Proposed Private Placement will decrease to RM574.97 million (with merger deficit and accumulated losses) upon completion of the Proposed Acquisitions;

    (c) increase in our gearing from 1.39 times after the completion of the Proposed Private Placement to 42.60 times upon completion of the Proposed Acquisitions (net gearing: increase from 0.45 times to 39.52 times); and

    (d) the Proposed Share Capital Reduction will be undertaken to eliminate the accumulated losses after the completion of the Proposed Acquisitions.

The above is a result of the decline in financial performance and financial position of the AAAGL Group and AAB Group arising from the adverse impacts from the COVID-19 pandemic when travel and border restrictions were enforced and aircraft were grounded. Nonetheless, as the economic activities and supply chain of the aviation industry normalise post COVID-19 pandemic, the aviation industry in Malaysia and Asia Pacific region is forecasted to recover close to / exceed their respective pre-COVID-19 levels by 2024. In line with the revival and increase of air travel demand, as the AAAGL Group and AAB Group reactivate their remaining aircraft, their financial performance and financial position (including NA and gearing) are expected to improve after this transitioning period;

(v) the Proposed Private Placement will be undertaken to strengthen the financial position of our Group amidst undertaking the Proposed Acquisitions and to raise funds of RM1,000.00 million for the New Aviation Group's aviation business;

(vi) one of the conditions precedent in the SSPAs requires that each of the Target Companies (together with their respective group of companies) does not incur or record an aggregate loss exceeding RM50.00 million during the 3-month period immediately preceding the respective dates of completion of the Proposed AAAGL Acquisition and Proposed AAB Acquisition; and

(vii) the AAAGL Purchase Consideration and AAB Purchase Consideration are fair and justifiable as explained in Sections 4.3 and 5.2, Part A of this Circular respectively.

20. ESTIMATED TIMEFRAME FOR COMPLETION

Subject to all relevant approvals being obtained, the Proposals and Proposed Granting of Subscription Options are expected to be completed by the 1st quarter of 2025.

The tentative timetable for the Proposals and Proposed Granting of Subscription Options is as follows:-

Date	Events
16 October 2024	• EGM for the Proposals and Proposed Granting of Subscription Options
November 2024 / December 2024	• Price-fixing for the Warrants and announcement of Warrants Entitlement Date • Warrants Entitlement Date • Listing and quotation of Warrants on the Main Market of Bursa Securities • Completion of the Proposed Issuance of Free Warrants
December 2024 / January 2025	• Price-fixing for the Placement Shares • Completion of the Proposed Private Placement • SSPAs becoming unconditional • Completion of the Proposed Acquisitions • Granting of 3 Subscription Options of 4% each to the Subscriber
January 2025 / February 2025	• High Court's order obtained for confirmation of the Proposed Share Capital Reduction • Lodgement of the High Court's order for confirmation of the Proposed Share Capital Reduction with the Registrar of Companies • Effective date of the Proposed Share Capital Reduction
January 2027	• Last day for the Subscriber to accept the Subscription Options
January 2029	• Last day for the Subscriber to exercise the Subscription Options

21. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals and Proposed Granting of Subscription Options, there are no other intended corporate exercises / schemes which have been announced by our Company but not yet completed as at the LPD.

22. EGM

The EGM, the notice of which is enclosed with this Circular, will be held as a virtual meeting via live streaming and online remote voting using the Remote Participation and Voting Facilities provided by Tricor Investor & Issuing House Services Sdn Bhd via its TIIH Online website at https://tiih.online, from the Broadcast Venue at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia on Wednesday, 16 October 2024 at 10.00 a.m. or at any adjournment thereof, for the purpose of considering and, if thought fit, passing the resolutions, with or without any modifications, to give effect to the Proposals and Proposed Granting of Subscription Options.

If you decide to appoint a proxy or proxies to participate and vote on your behalf at the EGM, you must complete, sign and return the Form of Proxy for the EGM and deposit it at the registered office of our Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia not less than 48 hours before the time appointed for holding the EGM or adjourned meeting at which the person named in the appointment proposes to vote. Your proxy appointment may also be lodged electronically via TIIH Online website at https://tiih.online. The completion and lodgement of the Form of Proxy for the EGM shall not preclude you from participating and voting in person at the virtual EGM should you subsequently wish to do so and in such an event, your Form of Proxy for the EGM shall be deemed to have been revoked.

23. FURTHER INFORMATION

You are advised to refer to the attached appendices for further information.

Yours faithfully,
For and on behalf of the Board of
AIRASIA X BERHAD

DATO' ABDUL MUTALIB BIN ALIAS
Independent Non-Executive Director

PART B

INDEPENDENT ADVICE LETTER FROM WYNCORP TO OUR NON-INTERESTED SHAREHOLDERS IN RELATION TO THE PROPOSED ACQUISITIONS

All definitions used in this Executive Summary shall have the same meaning as the words and expressions defined in the "Definitions" section of the Circular, except where the context herein otherwise requires or where otherwise defined herein. All references to "you" or "your" are references to the non-interested Shareholders of AAX; whilst all references to "we", "us" or "our" are references to WYNCORP, being the Independent Adviser for the Proposed Acquisitions.

THE PURPOSE OF THIS EXECUTIVE SUMMARY IS TO HIGHLIGHT THE SALIENT INFORMATION ON THE PROPOSED ACQUISITIONS AND THE IAL. YOU ARE ADVISED TO READ AND UNDERSTAND THE IAL IN ITS ENTIRETY, TOGETHER WITH THE LETTER TO SHAREHOLDERS OF AAX AS SET OUT IN PART A OF THE CIRCULAR AND THE ACCOMPANYING APPENDICES FOR OTHER RELEVANT INFORMATION AND NOT TO RELY SOLELY ON THIS EXECUTIVE SUMMARY IN FORMING AN OPINION ON THE PROPOSED ACQUISITIONS.

YOU ARE ALSO ADVISED TO CAREFULLY CONSIDER THE RECOMMENDATIONS IN RELATION TO THE PROPOSED ACQUISITIONS CONTAINED IN THIS IAL AND THE LETTER TO SHAREHOLDERS OF AAX AS SET OUT IN PART A OF THE CIRCULAR, BEFORE VOTING ON THE RESOLUTIONS TO GIVE EFFECT TO THE PROPOSED ACQUISITIONS TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY.

IF YOU ARE IN DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

1. INTRODUCTION

Please refer to Section 1 in Part A of the Circular for the chronological events in relation to the Proposals (including the Proposed Acquisitions) and Section 1 of this IAL for background information on the Proposed Acquisitions.

The purpose of the IAL is for us to provide the non-interested Shareholders of AAX with:

(i) an independent evaluation on the fairness and reasonableness of the Proposed Acquisitions insofar as the non-interested Shareholders of AAX are concerned;

(ii) whether the Proposed Acquisitions is detrimental to the non-interested Shareholders of AAX; and

(iii) our recommendation on whether the non-interested Shareholders should vote in favour of the resolutions pertaining to the Proposed Acquisitions to be tabled at the forthcoming EGM.

The IAL is prepared solely for the use of the non-interested Shareholders for the purpose of considering the Proposed Acquisitions at the forthcoming EGM and should not be used or relied upon by any other party or for any other purpose whatsoever. The non-interested Shareholders of AAX should rely on their own evaluation of the merits of the Proposed Acquisitions, before deciding on the course of action to be taken at the forthcoming EGM.

2. EVALUATION OF THE PROPOSED ACQUISITIONS

Section in the IAL / Area of evaluation	WYNCORP's comments
Section 7.1 / Rationale of the Proposed Acquisitions	We noted that the New Aviation Group upon completion of the Proposed Acquisitions would stand to be better-positioned to capitalise on the potential overall medium to long-term growth in passenger traffic for the Asia Pacific region, taking into consideration the potential enhancement on competitive advantages arising from greater economies of scale and cost-savings as well as greater resilience towards future market challenges and uncertainties with a larger revenue base. Shareholders stand to benefit from potential enhancement to the earnings of the New Aviation Group, equipped with greater resilience towards future market challenges and uncertainties. In addition, the Proposed Acquisitions do not expose AAX to entirely new business venture and would allow AAX to gain access to expansion without the exposure to risks associated with new start-up of operations. Whilst AAX would be exposed to additional operational and regulatory requirements in relation to the foreign markets in which the AOCs within the AAAGL Group operate upon completion of the Proposed Acquisitions, we are of the view that such additional exposure is inherent in nature and customary for any expansion involving foreign operations. We wish to highlight that upon completion of the Proposed Acquisitions, AAX will be exposed to additional financing and default risk in relation to the high gearing of the New Aviation Group. Please refer to Section 10.7, Part A of the Circular for further details. For information purposes, the Group's pro forma total borrowings, debentures and lease liabilities as at 31 December 2023 will increase from RM1,512.03 million to RM24,492.69 million upon completion of the Proposed Acquisitions. Whilst this risk cannot be fully mitigated, we are of the view that this risk has been adequately considered by the Board. Please refer to Section 7.1 of this IAL for further details on our evaluation on the rationale of the Proposed Acquisitions. Premised on our evaluation, the details of which as set out in Section 7.1 of this IAL, we are of the view that the rationale for the Proposed Acquisitions is **<u>reasonable</u>** and **<u>not detrimental</u>** to the interest of the non-interested Shareholders of AAX. We wish to highlight that the potential benefits from the Proposed Acquisitions are subject to risk factors as set out in Section 10, Part A of the Circular. Accordingly, we wish to draw your attention to our comments as set out in Section 7.6 of this IAL.
Section 7.2 / Evaluation of the Total Purchase Consideration	Premised on our evaluation on the basis and justification for the AAAGL Purchase Consideration and AAB Purchase Consideration (the details of which as set out in Section 7.2.1 of this IAL), and the fairness of the total purchase consideration (the details of which as set out in Section 7.2.2 of this IAL); we are of the view that: - (i) income approach – DCF method as the primary approach of valuation for the AOCs (namely, TAA, PAA, IAA and AAB) is **<u>fair</u>** and **<u>reasonable</u>**, as this valuation method gives due consideration to the income-producing ability of the AOCs, which is the critical element affecting value of the AOCs; and

Section in the IAL / Area of evaluation	WYNCORP's comments
	(ii) adjusted book value approach as the primary approach of valuation for the holding companies is **fair** and **reasonable**, as the book values of the respective holding companies have been adjusted to reflect the uplift in investment values arising from the difference between the fair values of the AOCs (appraised using the income approach – DCF method) and the current book values of the investment in the AOCs held by the respective holding companies. As such, the adjusted book value is considered an appropriate indication/approximation of the fair values of the holding companies, being investment-holding in nature without significant and distinctive income-producing ability; and (iii) the AAAGL Purchase Consideration and AAB Purchase Consideration are **fair** and **reasonable**, taking into consideration the following: (i) rationale and benefits of the Proposed Acquisitions as set out in Section 8.3, Part A of the Circular; (ii) outlook of the aviation industry and prospects of the Target Companies and the New Aviation Group as set out in Section 9, Part A of the Circular; (iii) the AAAGL Purchase Consideration (RM3,000.00 million) falls within the range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at the valuation date of 31 December 2023, whilst the AAB Purchase Consideration (RM3,800.00 million) falls within the range of valuation for the entire AAB Equity Interest of between RM3,721.00 million and RM4,602.00 million as at the valuation date of 31 December 2023, based on the valuation undertaken by Deloitte as set out in the Valuation Letter attached in Appendix VI(A) of the Circular; and (iv) the AAAGL Purchase Consideration (RM3,000.00 million) represents a discount of approximately RM285.50 million or 8.69% to the mid-point of the valuation range for AAAGL (being RM3,285.50 million), whilst the AAB Purchase Consideration (RM3,800.00 million) represents a discount of approximately RM361.50 million or 8.69% to the mid-point of the valuation range for AAB (being RM4,161.50 million); and the Total Purchase Consideration (RM6,800.00 million) represents a discount of approximately RM647.00 million or 8.69% to the aggregate of the mid-point of the valuation range for AAAGL and AAB (being RM7,447.00 million).

Section in the IAL / Area of evaluation	WYNCORP's comments
Section 7.3 / Evaluation of the modes of settlement for the Proposed Acquisitions and issue price of the Consideration Shares for the Proposed AAAGL Acquisition	Premised on our evaluation on the modes of settlement for the Proposed Acquisitions and issue price of the Consideration Shares for the Proposed AAAGL Acquisition (the details of which as set out in Section 7.3 of this IAL, we are of the view that the modes of settlement for the Proposed Acquisitions and issue price of the Consideration Shares for the Proposed AAAGL Acquisition is **fair** and **reasonable** and **not detrimental** to the interest of the non-interested Shareholders of AAX.
Section 7.4 / Salient terms of the SSPAs and the supplemental agreements to the SSPAs	We are of the view that the salient terms of the SSPAs (further amended by the supplemental agreements to the SSPAs) for the Proposed Acquisitions are **fair** and **reasonable** and **not detrimental** to the interest of the non-interested Shareholders of AAX.
Section 7.5 / Industry outlook and prospects	Premised on our evaluation on the industry outlook and prospects (the details as set out in Section 7.5 of this IAL), we are of the view that the Proposed Acquisitions are generally expected to contribute positively to the Company particularly over the medium and long term, and accordingly, the Proposed Acquisitions are deemed **fair** and **reasonable** and **not detrimental** to the interest of the non-interested Shareholders of AAX. Notwithstanding the positive and encouraging industry outlook and prospects, we wish to highlight that all businesses are subject to uncertainties and risks, some of which are not fully within the control of the Company. Accordingly, we advise the non-interested Shareholders of AAX to take note of, and carefully consider, the risks as set out in Section 10, Part A of the Circular and further discussed in Section 7.6 of this IAL.
Section 7.6 / Risks of the Proposed Acquisitions	Premised on our evaluation on the risks of the Proposed Acquisitions (the details of which as set out in Section 7.6 of this IAL), we are of the view that risks of the Proposed Acquisitions have been adequately considered. We noted that the non-interested Directors have, and will continue to, exercise due care in considering the potential risks and benefits associated with the Proposed Acquisitions and that the long-term benefits are expected to outweigh the cost and associated risks. We wish to highlight that notwithstanding any mitigating measures that may be put in place to limit and manage the abovementioned risks, there can be no assurance that the abovementioned risks will not materialise and give rise to material and adverse impact on the business operations, financial performance, financial position and the prospects of the enlarged aviation group thereon. Non-interested Shareholders of AAX are advised to take note of the indicated risks of the Proposed Acquisitions, which are not exhaustive; as well as the mitigating measures / factors, before deciding on how to vote on the Proposed Acquisitions at the forthcoming EGM of the Company.

Section in the IAL / Area of evaluation	WYNCORP's comments
Section 7.7 / Effects of the Proposed Acquisitions	We wish to highlight that the Proposed Acquisitions, upon completion, are expected to result in: - (i) overall dilution to the NA and NA per share of AAX Group, due to consideration of the shareholders' deficit of AAAGL Group on reverse acquisition accounting and the dilutive effect arising from the estimated expenses for the Proposed AAAGL Acquisition (estimated to be approximately RM8.55 million) and Proposed AAB Acquisition (estimated to be approximately RM6.01 million); and (ii) overall increase to the gearing of AAX Group, due to consolidation of borrowings, debentures and lease liabilities of AAAGL Group and AAB Group. Consequently, AAX Group will be exposed to additional financing and default risk in relation to the high gearing of the New Aviation Group upon completion of the Proposed Acquisitions. In addition, the actual effects of the Proposed Acquisitions to the earnings and EPS of AAX Group are only observable in the future upon completion of the Proposed Acquisitions, which is uncertain and dependent on the financial performance of AAAGL Group and AAB Group at that relevant point in time. Notwithstanding the above, we are of the view that the Proposed Acquisitions are **fair**, **reasonable** and **not detrimental to the interest of the non-interested Shareholders of AAX** from overall financial perspective, taking into consideration the following: - (i) the rationale of the Proposed Acquisitions (as set out in Section 8.3, Part A of the Circular and assessed in Section 7.1 of this IAL); (ii) the industry outlook and prospects (as set out in Section 9, Part A of the Circular and assessed in Section 7.5 of this IAL); (iii) the Proposed Acquisitions remain justifiable, notwithstanding the potential negative effects to the NA, NA per share and gearing of AAX Group upon completion of the Proposed Acquisitions, premised on the factors and considerations as discussed in Section 7.7.3 of this IAL; and (iv) the Proposed Acquisitions remain justifiable, notwithstanding the actual effects to the earnings and EPS of AAX Group are only observable in the future upon completion of the Proposed Acquisitions, which is uncertain and dependent on the financial performance of AAAGL Group and AAB Group at that relevant point in time; premised on the factors and considerations as discussed in Section 7.7.4 of this IAL.

3. CONCLUSION AND RECOMMENDATION

The non-interested Shareholders of AAX are advised to carefully consider the merits and demerits of the Proposal Acquisitions based on all relevant and pertinent factors, including those set out in this IAL as well as those highlighted by the Board in the letter to the Shareholders of AAX in relation to the Proposal Acquisitions as set out in Part A of the Circular, before voting on the resolutions pertaining to the Proposal Acquisitions at the forthcoming EGM of the Company.

We have assessed and evaluated the Proposed Acquisitions and have set out our evaluation in Section 7 of this IAL, after taking into consideration various aspects (financial and non-financial) of the Proposed Acquisitions.

Premised on our evaluation of the Proposed Acquisitions on a holistic basis, we are of the opinion that the Proposed Acquisitions are **FAIR, REASONABLE** and **NOT DETRIMENTAL TO THE INTEREST OF THE NON-INTERESTED SHAREHOLDERS OF AAX.**

Accordingly, we recommend that you **VOTE IN FAVOUR** of the ordinary resolutions pertaining to the Proposed Acquisitions to be tabled at the forthcoming EGM of the Company.

WYNCORP
CORPORATE FINANCE ADVISOR

WYNCORP ADVISORY SDN BHD
(Registration No.: 200301029902 [632322-H])
(Incorporated in Malaysia)

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Wisma UOA Damansara
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Damansara Heights
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Tel: (603) 2096 2286 /2289

24 September 2024

To: The non-interested Shareholders of AirAsia X Berhad ("AAX" OR "COMPANY")

Dear Sir / Madam,

INDEPENDENT ADVICE LETTER ("IAL") IN RELATION TO: -

(I) PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED ("AAAGL") HELD BY CAPITAL A BERHAD ("CAPITAL A") FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION ("AAAGL PURCHASE CONSIDERATION") TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX ("CONSIDERATION SHARES") AT AN ISSUE PRICE OF RM1.30 EACH ("PROPOSED AAAGL ACQUISITION"); AND

(II) PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN AIRASIA BERHAD ("AAB") HELD BY CAPITAL A FOR A PURCHASE CONSIDERATION OF RM3,800.00 MILLION ("AAB PURCHASE CONSIDERATION") TO BE SATISFIED ENTIRELY VIA THE ASSUMPTION BY AAX OF AN AMOUNT OF RM3,800.00 MILLION OWING BY CAPITAL A TO AAB ("DEBT SETTLEMENT") ("PROPOSED AAB ACQUISITION")

(COLLECTIVELY REFERRED TO AS THE "PROPOSED ACQUISITIONS")

This IAL is prepared for inclusion in Part B of the Circular to the Shareholders of AAX, and should be read in conjunction with Part A of the Circular and the accompanying appendices therein. All definitions used in this IAL shall have the same meaning as the words and expressions defined in the "Definitions" section of the Circular, except where the context herein otherwise requires or where otherwise defined in this IAL. All references to "you" or "your" are references to the non-interested Shareholders of AAX; whilst all references to "we", "us" or "our" in this IAL are references to WYNCORP, being the Independent Adviser for the Proposed Acquisitions.

1. INTRODUCTION

On 25 April 2024, the Company had entered into a conditional internal reorganisation agreement with AAG for the implementation of a proposed internal reorganisation by way of a members' scheme of arrangement under Section 366 of the Act ("**Proposed Internal Reorganisation**") comprising the following ("**Internal Reorganisation Agreement**"): -

(i) proposed exchange of all Shares with new ordinary shares in the AAG on the basis of 1 new ordinary share in AAG for every 1 existing Share held by the entitled Shareholders on an entitlement date to be determined and announced later; and

(ii) proposed assumption by AAG of the listing status of AAX and the admission of AAG to, and the withdrawal of AAX from, the Official List with the listing and quotation of the entire enlarged issued share capital of AAG on the Main Market of Bursa Securities.

On even date, AAG had entered into the AAAGL SSPA and AAB SSPA with Capital A for the Proposed AAAGL Acquisition and Proposed AAB Acquisition respectively. The Proposed Acquisitions are deemed to be a related party transactions pursuant to Paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Directors and Interested Major Shareholders in the Proposed Acquisitions as set out in Section 15, Part A of the Circular.

Pursuant thereto, and in compliance with Paragraph 10.08(2) of the Listing Requirements, WYNCORP has been appointed as the independent adviser of the Company on 18 April 2024 to advise the non-interested Directors and the non-interested Shareholders on the fairness and reasonableness of the Proposed Acquisitions, and whether the Proposed Acquisitions are detrimental to the interest of the non-interested Shareholders.

In order to expedite the implementation and completion of the Proposed Acquisitions (if approved by you), the Board had on 26 July 2024 decided to abort the Proposed Internal Reorganisation and to undertake the Proposed Acquisitions under AAX instead of AAG as initially proposed. This decision was arrived at after weighing potential benefits of the Proposed Internal Reorganisation against time required for the implementation of the Proposed Internal Reorganisation and more critically, the importance of an expedient completion of the Proposed Acquisitions to the Group. Accordingly, AAX and AAG had on 26 July 2024 mutually terminated the Internal Reorganisation Agreement.

In addition, the Company (as the new purchaser), AAG (as the original purchaser) and Capital A (as vendor) had on 26 July 2024 entered into supplemental agreements to the respective SSPAs. Pursuant to the supplemental agreements dated 26 July 2024, the Company has assumed the rights and obligations of AAG to the AAAGL SSPA and AAB SSPA as the purchaser in respect of the Proposed AAAGL Acquisition and Proposed AAB Acquisition respectively.

Further, the Company and Capital A had on 4 September 2024 entered into second supplemental agreements to the respective SSPAs. Pursuant to the second supplemental agreements dated 4 September 2024, the approvals and/or consents of lenders / financiers of the AAAGL Group and AAB Group for the release and/or discharge of any corporate guarantee and/or security provided by the Capital A Group Post Disposal in favour of lenders / financiers of the AAAGL Group and AAB Group shall be obtained before the date of completion of the Proposed AAAGL Acquisition and Proposed AAB Acquisition respectively.

The purpose of the IAL is for us to provide the non-interested Shareholders of AAX with: -

(i) an independent evaluation on the fairness and reasonableness of the Proposed Acquisitions insofar as the non-interested Shareholders of AAX are concerned;

(ii) whether the Proposed Acquisitions is detrimental to the non-interested Shareholders of AAX; and

(iii) our recommendation on whether the non-interested Shareholders should vote in favour of the resolutions pertaining to the Proposed Acquisitions to be tabled at the forthcoming EGM.

The IAL is prepared solely for the use of the non-interested Shareholders for the purpose of considering the Proposed Acquisitions at the forthcoming EGM and should not be used or relied upon by any other party or for any other purpose whatsoever. The non-interested Shareholders of AAX should rely on their own evaluation of the merits of the Proposed Acquisitions, before deciding on the course of action to be taken at the forthcoming EGM.

YOU ARE ADVISED TO READ AND UNDERSTAND BOTH THIS IAL AND THE LETTER TO SHAREHOLDERS OF AAX IN RELATION TO THE PROPOSED ACQUISITIONS AS SET OUT IN PART A OF THE CIRCULAR TOGETHER WITH THE ACCOMPANYING APPENDICES.

YOU ARE ADVISED TO CAREFULLY CONSIDER THE RECOMMENDATIONS CONTAINED IN THIS IAL, AND THE LETTER TO THE SHAREHOLDERS OF AAX IN RELATION TO THE PROPOSED ACQUISITIONS AS SET OUT IN PART A OF THE CIRCULAR; BEFORE VOTING ON THE RESOLUTIONS TO GIVE EFFECT TO THE PROPOSED ACQUISITIONS TO BE TABLED AT THE FORTHCOMING EGM.

IF YOU ARE IN DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2. SCOPE AND LIMITATION OF OUR EVALUATION OF THE PROPOSED ACQUISITIONS

WYNCORP was not involved in the formulation of, negotiations or discussions on, the terms and conditions pertaining to the Proposed Acquisitions. The terms of reference of our appointment as the Independent Adviser are in accordance with the requirements relating to independent adviser as set out in Paragraph 10.08(3) of the Listing Requirements.

Our scope as the Independent Adviser is limited to expressing an independent opinion on the fairness and reasonableness of the Proposed Acquisitions insofar as the non-interested Shareholders of AAX are concerned, and whether the Proposed Acquisitions is detrimental to the non-interested Shareholders of AAX; together with our recommendation on whether the non-interested Shareholders of AAX should vote in favour of the Proposed Acquisitions.

In performing our evaluation, we have relied on the following sources of information and documents made available to us and making enquiries as were reasonable in the circumstances, as set out below: -

(i) information contained in Part A of the Circular and the accompanying appendices;

(ii) the SSPAs and the supplemental agreements to the SSPAs;

(iii) the audited consolidated financial statements of AAX for the FYEs 31 December 2023, 2022 and 2021;

(iv) the audited consolidated financial statements of Capital A for the FYEs 31 December 2023, 2022 and 2021;

(v) the audited financial statements of AAAGL Group comprising the following: -

- audited financial statements of AAAGL for the FYEs 31 December 2023, 2022 and 2021;
- audited consolidated financial statements of AAID for the FYEs 31 December 2023, 2022 and 2021;
- audited financial statements of AAI for the FYEs 31 December 2023, 2022 and 2021;
- audited consolidated financial statements of AAV for the FYEs 31 December 2023, 2022 and 2021;
- audited financial statements of IAA, PAA and TAA respectively for the FYEs 31 December 2023, 2022 and 2021;

(vi) the audited financial statements of AAB for the FYEs 31 December 2023, 2022 and 2021;

(vii) the valuation letter issued by Deloitte on the indicative fair values of 100% equity interests in AAAGL and AAB respectively;

(viii) the valuer's assessment letter issued by Deloitte in respect of its assessment of the issuance of bonds by AirAsia RB 1 Ltd (a wholly-owned subsidiary of AAB) particularly on the valuation of the entire AAB Equity Interest;

(ix) financial projections and other relevant information, documents, and representations furnished to us by the Board, management and/or representatives of AAX; and

(x) other publicly available information which we consider relevant for our evaluation.

We have relied on the Board, management and representatives of AAX to take due care in ensuring that all information, data, documents, confirmations and representations provided to us to facilitate our evaluation are accurate, valid, complete, reasonable and free from omission in all material respects. WYNCORP has not conducted any audit or other verification procedures in respect of any financial and non-financial data and information used in our evaluation. Accordingly, WYNCORP shall not assume any responsibility or liability whatsoever to any party for any inaccuracies, misstatements or omissions of facts and information provided or represented by the Board, management and representatives of AAX.

In addition, the Board has seen and approved the contents of this IAL, and collectively and individually: -

- accepts full responsibility for the accuracy and completeness of the information, documents, data and statements provided to us and as contained in this IAL in relation to the Proposed Acquisitions (save and except for opinion expressed by WYNCORP which do not contain factual information provided by the Company and information procured or developed by WYNCORP independently of the Company); and

- confirms, after having made all reasonable enquiries and to the best of their knowledge and belief, that all relevant facts and information in relation to the Proposed Acquisitions that are necessary for our evaluation have been completely and accurately disclosed to us and there is no omission which would render any such information provided to us false, incomplete, misleading and/or inaccurate.

After making reasonable enquiries and to the best of our knowledge and belief, we are satisfied that sufficient information has been disclosed to us in enabling us to form our opinion; and are not aware of any facts or matters not disclosed which may render any such information untrue, inaccurate or misleading or the disclosure of which might reasonably affect our evaluation and opinion as set out in this IAL.

The non-interested Shareholders should note that our views expressed in this IAL are, amongst others, based on the information and/or documents made available to us as well as prevailing economic, market and other conditions (where applicable) as at and up to the LPD. Such conditions may change significantly over a short period of time after the date of this IAL, which may adversely affect amongst others, the financial and operational conditions of AAX, AAAGL Group and/or AAB. Accordingly, our evaluation and opinion expressed in this IAL do not consider information, events and/or conditions arising or may occur after the LPD. Our advice should be considered in the context of the entirety of this IAL.

We shall immediately notify the non-interested Shareholders of AAX through an announcement to Bursa Securities, or by way of issuing a supplementary IAL should the circumstances require; if, after this IAL is despatched, we become aware that this IAL: -

(i) contains a material statement which is false or misleading; or

(ii) contains a statement from which there is a material omission.

In rendering our advice, we have taken note of the pertinent matters which we believe are necessary and of importance to the assessment of the implications of the Proposed Acquisitions and therefore are of general concern to the non-interested Shareholders of AAX in making their decisions thereon. Notwithstanding the foregoing: -

(i) we do not express any opinion on the commercial merits of the Proposed Acquisitions which remain the sole responsibility of the Board. Comments or points of consideration which may be commercially-oriented such as the rationale, financial effects, potential benefits and future prospects of the Proposed Acquisitions that we deem necessary are included for disclosure purposes only to enable the non-interested Shareholders of AAX to consider and form their views in a more holistic manner thereon;

(ii) we do not express an opinion on the legal, accounting and taxation issues relating to the Proposed Acquisitions; and

(iii) we have not considered the specific investment objectives, risk profiles, financial and tax situations, and/or particular needs of any individual non-interested Shareholder or any specific group of non-interested Shareholders in our evaluation. We recommend that any individual non-interested Shareholder or group of non-interested Shareholders who is in doubt as to the action to be taken, or require advice in relation to the Proposed Acquisitions in the context of his/her individual investment objectives, risk profiles, financial and tax situations, and/or particular needs; to consult his/her respective stockbroker, bank manager, solicitor, accountant or other professional advisers immediately. We shall not be liable for any damages or losses of any kind sustained or suffered by any individual non-interested Shareholder or group of non-interested Shareholders in reliance on the opinion stated herein for any purpose whatsoever.

Based on the above and after making reasonable enquiries and to the best of our knowledge and belief, we are of the view that the information used is reasonable, accurate, complete and free from material omissions.

3. DECLARATION OF CONFLICT OF INTEREST

Save for the current appointment and professional fees paid/payable to us for acting as the Independent Adviser for the Proposed Acquisitions; and the expert to prepare the expert's report on the fairness of the AAAGL Purchase Consideration for the Proposed AAAGL Acquistion, we neither have any professional relationship with AAX, nor received/derived any financial interest/benefit from AAX, in the past 2 years prior to the date of this IAL. In addition, we do not have any financial interest/benefit arising from/dependent on the outcome of the Proposed Acquisitions. We are not aware of any conflict of interest which exist or likely to exist in our capacity as the Independent Adviser in respect of the Proposed Acquisitions.

4. CREDENTIALS AND EXPERIENCE OF WYNCORP

WYNCORP is a corporate finance advisory firm incorporated in Malaysia bearing a Capital Markets Services License (*License Number: eCMSL/A0126/2007*) issued by the Securities Commission Malaysia to carry out the regulated activity of advising on corporate finance under the Capital Markets and Services Act 2007.

For information purposes only, the following are our credentials and experiences as an independent adviser: -

(a) independent adviser to the non-interested shareholders of FITTERS Diversified Berhad in relation to the proposed ratification of the acquisitions, and disposals, of 12,140,000 ordinary shares and 6,180,000 warrants in Computer Forms (Malaysia) Berhad; further details of which as set out in our independent advice letter dated 7 September 2023;

(b) independent adviser to the non-interested shareholders of Heng Huat Resources Group Berhad in relation to the Proposed Jawi & Kulim Acquisitions (as defined in the circular dated 28 February 2022); further details of which as set out in our independent advice letter dated 28 February 2022; and

(c) independent adviser to the non-interested shareholders of JHM Consolidation Berhad in relation to the proposed acquisition of the entire equity interests in Mace Instrumentation Sdn Bhd; further details of which as set out in our independent advice letter dated 2 January 2018.

Premised on the above, we are capable of and competent in carrying out the roles and responsibilities as the Independent Adviser to advise the non-interested Directors and non-interested Shareholders of AAX in relation to the Proposed Acquisitions.

5. DETAILS OF THE PROPOSED ACQUISITIONS

The full details of the Proposed Acquisitions are set out in Section 4 (in relation to the Proposed AAAGL Acquisition) and Section 5 (in relation to the Proposed AAB Acquisition) of Part A of the Circular, and should be read in its entirety by the non-interested Shareholders of AAX.

6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

The details of the directors, major shareholders, chief executive and/or persons connected to them who are deemed to have an interest, directly or indirectly, in the Proposed Acquisitions, are set out in Section 15, Part A of the Circular.

6.1 Interested Directors

Save as disclosed below, none of the Company’s Directors and/or persons connected with them has any interest, whether direct or indirect, in the Proposed Acquisitions: -

(i) Dato’ Fam Lee Ee, the Non-Independent Non-Executive Chairman of the Company, is deemed interested in the Proposed Acquisitions by virtue of him being the Senior Independent Non-Executive Director of Capital A, being the Vendor for the Proposed Acquisitions; and

(ii) Datuk Kamarudin, the Non-Independent Executive Director of the Company, is deemed interested in the Proposed Acquisitions by virtue of him being the Non-Independent Executive Chairman of Capital A, being the Vendor for the Proposed Acquisitions.

The above Interested Directors have abstained and will continue to abstain from all deliberating and voting at the relevant AAX board meetings in respect of the Proposed Acquisitions.

6.2 Interested Major Shareholders

Save as disclosed below, none of the Company's major shareholders and/or persons connected with them has any interest, whether direct or indirect, in the Proposed Acquisitions: -

(i) Tan Sri Tony Fernandes, a Major Shareholder of the Company, is deemed interested in the Proposed Acquisitions by virtue of him being the Non-Independent Executive Director and Chief Executive Officer and a major shareholder of Capital A, being the Vendor for the Proposed Acquisitions;

(ii) Datuk Kamarudin, a Major Shareholder of the Company, is deemed interested in the Proposed Acquisitions by virtue of him being the Non-Independent Executive Chairman and a major shareholder of Capital A, being the Vendor for the Proposed Acquisitions;

(iii) AAB, a Major Shareholder of the Company, is deemed interested in the Proposed Acquisitions by virtue of it being a wholly-owned subsidiary of Capital A, being the Vendor for the Proposed Acquisitions. For the avoidance of doubt, AAB is the target company under the Proposed AAB Acquisition. Prior to the completion of the Proposed AAB Acquisition, AAB will sell and transfer its entire shareholding in the Company to Capital A pursuant to the AAX Stake Transfer;

(iv) Capital A, a Major Shareholder of the Company, is deemed interested in the Proposed Acquisitions by virtue of it being the Vendor for the Proposed Acquisitions; and

(v) Tune Group Sdn Bhd, a Major Shareholder of the Company, is deemed interested in the Proposed Acquisitions by virtue of it being a person connected with Tan Sri Tony Fernandes and Datuk Kamarudin who hold more than 20% equity interest in Tune Group Sdn Bhd.

6.3 Shareholdings of the Interested Directors and Interested Major Shareholders in the Company

As at the LPD, the respective shareholdings of the Interested Directors and Interested Major Shareholders in the Company are as follows: -

	Direct		Indirect	
Name	**No. of shares**	**%(1)**	**No. of shares**	**%(1)**
Tan Sri Tony Fernandes	11,158,722	2.50	131,033,136(2)	29.31
Dato' Fam Lee Ee	-	-	-	-
Datuk Kamarudin	37,070,993	8.29	131,033,136(2)	29.31
AAB	57,072,850	12.77	-	-
Capital A	-	-	57,072,850(3)	12.77
Tune Group Sdn Bhd	73,960,286	16.54	-	-

Notes: -

(1) *Based on 447,072,803 issued Shares as at the LPD.*

(2) *Deemed interested by virtue of his interest in AAB and Tune Group Sdn Bhd pursuant to Section 8 of the Act.*

(3) *Deemed interested by virtue of its interest in AAB pursuant to Section 8 of the Act.*

The Interested Directors and Interested Major Shareholders will abstain, and they have undertaken that they will ensure that persons connected with them will abstain, from voting in respect of their respective direct and/or indirect shareholdings in the Company (if any) on the resolutions approving the Proposed Acquisitions at the forthcoming EGM of the Company.

7. EVALUATION OF THE PROPOSED ACQUISITIONS

In arriving at our opinion and recommendation, we have assessed and evaluated the Proposed Acquisitions based on the following pertinent factors: -

Consideration factors		Section
(i)	Rationale of the Proposed Acquisitions	7.1
(ii)	Evaluation of the Total Purchase Consideration	7.2
(iii)	Evaluation of the modes of settlement for the Proposed Acquisitions and issue price of the Consideration Shares for the Proposed AAAGL Acquisition	7.3
(iv)	Salient terms of the SSPAs and the supplemental agreements to the SSPAs	7.4
(v)	Industry outlook and prospects	7.5
(vi)	Risks of the Proposed Acquisitions	7.6
(vii)	Effects of the Proposed Acquisitions	7.7

7.1 Rationale of the Proposed Acquisitions

We take cognisance of the rationale of the Proposed Acquisitions as set out in Section 8.3, Part A of the Circular. Our observations and commentaries are discussed below: -

- *"The Proposed Acquisitions present an opportunity to you to own a part of the New Aviation Group that will house award-winning airlines with over 22 years of established history and track record (which will operate and provide a full spectrum of short, medium and long-haul low-cost air transportation services, with domestic flights and international flights from Malaysia, Thailand, the Philippines, Indonesia and Cambodia to numerous destination countries) and to bear the risks and rewards associated with ownership of the enlarged aviation group amidst the anticipated recovery of international air traffic post COVID-19. The Proposed Acquisitions will allow our Company to consolidate the assets and liabilities(1) as well as earnings of all the abovementioned airlines entities operating under the "AirAsia" brand (including "AirAsia X" brand).*

  Note: -
  (1) As set out in Section 11.3, Part A of this Circular, our Group will have a pro forma NA as at 31 December 2023 of RM574.97 million and total borrowings, debentures and lease liabilities as at 31 December 2023 of RM24,492.69 million upon completion of the Proposed Acquisitions."

WYNCORP's comments
We are of the view that this rationale is valid and reasonable, where the New Aviation Group upon completion of the Proposed Acquisitions would stand to be better-positioned to capitalise on the potential overall medium to long-term growth in passenger traffic for the Asia Pacific region, taking into consideration the potential enhancement on competitive advantages arising from greater economies of scale and cost-savings as well as greater resilience towards future market challenges and uncertainties with a larger revenue base. Shareholders stand to benefit from potential enhancement to the earnings of the New Aviation Group, equipped with greater resilience towards future market challenges and uncertainties. In addition, the Proposed Acquisitions do not expose AAX to entirely new business venture and would allow AAX to gain access to expansion without the exposure to risks associated with new start-up of operations. Whilst AAX would be exposed to additional operational and regulatory requirements in relation to the foreign markets in which the AOCs within the AAAGL Group operate upon completion of the Proposed Acquisitions, we are of the view that such additional exposure is inherent in nature and customary for any expansion involving foreign operations. In addition, the centralised leadership intended to be established under Bo Lingam as the Group Chief Executive Officer of the New Aviation Group following the completion of the Proposed Acquisitions, where he will be assisted by a team of experienced key senior management team which comprises existing key senior management personnel of AAX Group, AAAGL Group and AAB Group, who have in-depth knowledge of the operations of the respective airlines; will help to mitigate any potential disruption or adverse impact arising from such additional exposure upon completion of the Proposed Acquisitions.

- *"The Proposed Acquisitions are expected to enable the New Aviation Group to achieve elevated synergistic benefits in 3 areas, i.e. (i) centralised decision-making, (ii) flexibility in fleet management and utilisation, and (iii) more economies of scale and cost savings, which are expected to drive the business success of the enlarged aviation group as elaborated below: -*

  (i) Centralised decision-making

  With the Proposed Acquisitions, our Group, AAAGL Group and AAB Group will be housed together, forming an enlarged aviation group. This allows for the streamlining of administrative, operational, reporting and decision-making processes through a centralised management and leadership within the New Aviation Group.

  Following the completion of the Proposed Acquisitions, a centralised leadership is intended to be established under Bo Lingam as the Group Chief Executive Officer of the New Aviation Group and he will be assisted by a team of experienced key senior management team which comprises existing key senior management personnel of our Group, AAAGL Group and AAB Group, who have in-depth knowledge of the operations of the respective airlines. A centralised leadership will enable the consolidation of collaborations and business decision-making across all entities within the New Aviation Group and this will help rationalise the operations, improve efficiency across all business functions and processes, in addition to providing greater flexibility for the New Aviation Group to set the future business and strategic directions and business strategies.

  In preparation for the Proposed Acquisitions to streamline aviation business functions and processes amongst the airlines in the New Aviation Group, key aviation business functions such as treasury, legal, human resources, airline operations, corporate communications, airline strategy, fleet, network, scheduling and regulatory affairs, safety, operational quality assurance, airport *partnerships and incentives, aircraft leasing, maintenance and lease restructuring, route revenue, and airline marketing functions are being taken over by AAAMS. As at the LPD, AAB and AAAGL have entered into service agreements with AAAMS for these services. Similarly, AAX will be entering into a service agreement with AAAMS for these services in the near future, subject to our Company obtaining your mandate to enter into such recurrent related party transactions, if required. Prior to this, the airlines have appointed AirAsia SEA Sdn Bhd and/or AirAsia SEA Limited, both of which are subsidiaries of Capital A, to provide business functions for the operations of the airlines.*

AAAMS is a wholly-owned subsidiary of AAAGL and will be part of the New Aviation Group after the Proposed Acquisitions. This arrangement enables enhanced efficiency as decision-making related to aviation business for all the airlines to be housed under the New Aviation Group will be centralised and eliminates tedious administrative procedures which are otherwise required for compliance with the requirements under the Listing Requirements in respect of recurrent related party transactions if the services are rendered by AirAsia SEA Sdn Bhd and/or AirAsia SEA Limited which will remain as subsidiaries of Capital A.

(ii) Flexibility in fleet management and utilisation

Generally, the airlines to be housed under the New Aviation Group adopt focused aircraft fleet operations whereby our Group operates medium and long-haul flights using widebody aircraft (i.e. A330-300 series aircraft), while the AAAGL Group and AAB Group operate short-haul flights using primarily narrowbody aircraft (i.e. A320-series aircraft). The aircraft leased and operated by each airline can only be shared between airlines by subleasing through wet lease arrangements, where an airline provides an aircraft together with the pilots and cabin crew to operate the aircraft. Due to lengthy administrative and decision-making processes, including adherence to the Listing Requirements particularly in areas of related party transactions, our Group, AAAGL Group and AAB Group have rarely entered into wet lease arrangements to cross utilise the aircraft in the past.

Under a centralised leadership and management, the New Aviation Group expects to increase cross utilisation of aircraft across the airlines through wet lease arrangements, subject to approval by the respective local aviation authorities in the countries where the New Aviation Group operates. With the housing of the airlines together forming the New Aviation Group, the administrative procedures and decision-making process will be simplified and the New Aviation Group will be more flexible in effectively and more conveniently deploying the suitable type of aircraft based on the prevailing needs from each airline within the enlarged aviation group, passenger volume and take-up rate. Consequently, this will ease operational processes and optimise the utilisation of the fleet of aircraft across airlines, which are expected to enhance the New Aviation Group's overall operational efficiency and cost management, and eventually benefit its financial performance.

The scheduling and deployment of aircraft under the enlarged aviation group can be arranged based on prevailing market demand to achieve optimal passenger loads in order to offer competitive flight ticket pricing while achieving reasonable profitability margin as well as potentially capture a higher market share for air travel within the Southeast Asia and Asia Pacific regions by organising more co-ordinated network plans as follows: -

(a) Right-sizing capacity based on demand

Due to the seasonality factor leading to peak travel periods for some of our Group's medium-haul routes (especially routes for holiday *destinations), these medium-haul routes operated by our Group may face decreases in passenger volume during non-peak seasons. When a widebody aircraft is deployed with small passenger loads, it reduces the revenue per RPK and may impact profitability margin and affect the ability to offer competitive flight ticket pricing for that route. The flexibility for the New Aviation Group, after the Proposed Acquisitions, to schedule and deploy more narrowbody aircraft during non-peak seasons will allow it to rationalise on the reduced passenger loads with the use of narrowbody aircraft which has a smaller passenger capacity.*

On the contrary, certain short-haul flights operated under the AAAGL Group and AAB Group may face seasonality increases in passenger volume during festive seasons which trigger back-to-hometown crowds for domestic flights, or sporadic increases in demand to popular international destinations such as Singapore, Bangkok and Bali. The flexibility for the New Aviation Group to schedule and deploy more widebody aircraft operated under the enlarged aviation group to cater to such increased demand will allow it to capitalise on sales opportunities on routes with slot constraints as a widebody aircraft has a larger passenger capacity than a narrowbody aircraft.

(b) Efficient aircraft deployment

Additionally, flexibility in aircraft deployment will allow the New Aviation Group to schedule and deploy aircraft according to the take-up rate of existing and new routes for profit maximisation whilst ensuring cost-efficiency.

Through more co-ordinated network plans, the New Aviation Group will be able to plan and organise its aircraft deployment and schedule more connecting flights (i.e. Fly-Thru services) to better connect short-haul networks (usually with high flight frequencies) to the medium and long-haul destinations (with lower flight frequencies). The increased number of connecting flights is expected to offer more convenience to the long-haul passengers to match their travelling schedule. This enables the New Aviation Group to potentially capture a higher market share for air travel.

Flexibility in fleet and network deployment is also envisioned to drive the growth of the New Aviation Group with the option to deploy narrowbody aircraft to new routes at the infancy stage, socialising new markets without excess capacity to flood the markets and only transitioning to full widebody capacity once the markets mature.

Moving forward, the New Aviation Group plans to continue to review its fleet plan from time to time and may order or lease more aircraft to respond to changes in the aviation industry and to enhance its air connectivity. As at the LPD, the airlines to be housed under the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035), providing the New Aviation Group with certainty for aircraft deliveries to meet its fleet replacement and expansion plans. Closer to the delivery and prior to the finalisation of lease documents where the aircraft will be tagged to an airline, the New Aviation Group has the flexibility to deploy the aircraft to any of its airlines based on the suitability and prevailing needs of each airline.

The access to the enlarged aviation group's collective orderbook is critical for our Group's long-term growth prospects, which is currently limited as a result of the necessary corporate exercises undertaken during the COVID-19 pandemic. At the height of the COVID-19 pandemic, our Group (i) downsized *our aircraft orderbook consisting of A330neo aircraft and A321XLR aircraft and (ii) deferred delivery of the orderbook until 2026. While necessary at that time, our Group now faces limitation in our expansion prospects in the immediate term as world over, airlines recovery and by extent of such recovery, demand for additional aircraft capacity were on unparalleled scale.*

The Proposed Acquisitions are envisioned to enable our Group to access immediate fleet growth prospects through AAB's existing orderbook, with delivery between 2024 and 2035. Aircraft deliveries from this orderbook are envisioned to be allocated to AOCs within the New Aviation Group as necessary to facilitate continued growth and expansion for all "AirAsia"-branded airlines including our Group, thereby averting a scenario of fleet stagnation and losing market share to growing competitors locally and regionally.

(iii) More economies of scale and cost savings

<u>Potential interest savings and greater fund-raising capability</u>: Despite sharing some common shareholders, our Group negotiated our lease contracts and lease facilities separately from the AAAGL Group and AAB Group, and our Group's credit track record was generally assessed independently from the AAAGL Group and AAB Group.

Our Group, as part of the enlarged aviation group following the completion of the Proposed Acquisitions, will be able to leverage on the combined credit track record of the New Aviation Group to negotiate for better credit terms for our future leasing contracts and lease facilities.

Further, after the completion of the Proposals, the New Aviation Group as an enlarged aviation group operating and providing a full spectrum of short, medium and long-haul low-cost air transportation services, coupled with its strengthened and stronger financial position, will have greater fund-raising capability to support its future business growth and expansion.

<u>Joint sales and marketing activities</u>: With a centralised leadership and management, the New Aviation Group can enhance its cross selling between short and medium-haul flights across its airlines through participation in joint marketing campaigns. This allows the New Aviation Group to maximise its advertising spend i.e. to achieve a wider consumer reach, ultimately resulting in a stronger marketing impact under the "AirAsia" brand and capture potentially more sales across the airlines and achieve cost savings.

<u>Procurement of supplies</u>: As at the LPD, the purchase of certain supplies (e.g. spare parts, consumables and chemicals) for most of the airlines under the AAAGL Group and AAB Group have been centralised through Asia Digital Engineering Sdn Bhd, a subsidiary of Capital A, to minimise direct purchases and negotiations with third party suppliers. Our Company is in negotiation with Asia Digital Engineering Sdn Bhd for similar arrangement. Following the completion of the Proposed Acquisitions, under a centralised leadership and management, the consolidation of procurement of supplies for our Group, AAAGL Group and AAB Group through Asia Digital Engineering Sdn Bhd will be further enhanced, allowing the New Aviation Group to leverage on the enlarged need for any common supplies to negotiate for better supply contract terms, in particular more competitive pricing and better credit terms, as well as for greater assurance to secure the volumes required.

Further, centralised procurement strategies allow the enlarged aviation group to better manage supply contracts and provides flexibility to effectively utilise the supplies based on the needs from each entity within the New Aviation Group. Consequently, this is expected to ease operational processes, *minimise wastages and reduce inventory turnover rates which are expected to enhance the New Aviation Group's overall cost management, and eventually benefit its financial performance."*

WYNCORP's comments
We are of the view that this rationale is valid and reasonable, taking into consideration that the enlarged aviation group would be better-positioned to achieve additional cost-savings through centralised management, increased flexibility in fleet management and utilisation, potential enhancement to the overall credit rating and record of the enlarged aviation group which could lead to interest savings, joint sales and marketing activities as well as centralised procurement; which could not be fully optimised should AAX Group, AAAGL Group and AAB Group do not come under one consolidated group due to the restrictions and compliance requirements imposed by the Listing Requirements. Part D and E of Chapter 10 of the Listing Requirements specifically excludes transactions entered into between a listed issuer (or any of its wholly-owned subsidiaries) and its wholly-owned subsidiaries. Upon completion of the Proposed Acquisitions, transactions between AAX (or any of its wholly-owned subsidiaries) and its wholly-owned subsidiary (such as AAB and AAAMS) will no longer be classified as "related party transaction"; thereby relieving the New Aviation Group from the administrative hassle to obtain separate shareholders' approval and allowing for better coordination and expedient sharing of resources, whilst ensuring proper compliance with the Listing Requirements. We wish to highlight that there may be additional costs and expenditures to be incurred in the short-term for the integration activities in the formation of the enlarged aviation group. Nevertheless, we are of the view that the Proposed Acquisitions stand to contribute positively to the enlarged aviation group in the medium and longer term, taking into consideration the expected continual and sustainable growth of the respective AOCs and the expected elevated synergistic benefits envisaged by the Board and management of AAX. We wish to highlight that upon completion of the Proposed Acquisitions, AAX will be exposed to additional financing and default risk in relation to the high gearing of the New Aviation Group. Please refer to Section 10.7, Part A of the Circular for further details. For information purposes, the Group's pro forma total borrowings, debentures and lease liabilities as at 31 December 2023 will increase from RM1,512.03 million to RM24,492.69 million upon completion of the Proposed Acquisitions. Whilst this risk cannot be fully mitigated, we are of the view that this risk has been adequately considered by the Board, taking into consideration the following: - (i) the Proposed Acquisitions is conditional upon the Proposed Private Placement of RM1,000.00 million, of which RM300.00 million has been earmarked for pre-payment / repayment of the AAB Group's term loan facilities; (ii) lease liabilities (which accounted for approximately 83.5% of the Group's pro forma total borrowings, debentures and lease liabilities upon completion of the Proposed Acquisitions) are mainly relating to leases of aircraft and spare engines, which are backed by corresponding right-of-use assets; (iii) AAAGL Group and AAB Group have been able to sustain their operations over the years. For information purposes, both AAAGL Group and AAB Group generated positive cash flows from operating activities for the FYE 31 December 2023 and recorded positive cash and cash equivalents at the end of the FYE 31 December 2023; (iv) the projected future revenue growth of AAAGL Group and AAB Group, backed by the relatively positive prospects and industry outlook, are expected to further enhance the ability of the New Aviation Group to meet its future obligations in relation to the repayment of borrowings, debentures and lease liabilities; and

WYNCORP's comments
(v) where necessary, the New Aviation Group may refinance its debt obligations to extend the tenure and/or to obtain more favourable financing terms. Further, as the New Aviation Group reactivates more aircrafts and ramps up its operations in line with the revival and increase of air travel demand after the COVID-19 pandemic, its financial performance and financial position are expected to strengthen, and this will also mitigate the financing and default risk.

- *"Further, the Proposed Acquisitions allow our Group to strengthen the leverage to continue to benefit from the already-present synergies from being part of a wider AirAsia Ecosystem which is critical to support our Group's business operations and growth. Since the commencement of our Group's business, our Group's close association with other entities within the AirAsia Group has allowed us to leverage on "AirAsia" brand (including "AirAsia X" brand) and AirAsia Ecosystem and hence, our Group does not need to invest heavily on building our own brand and infrastructure. Our Group, as part of the enlarged aviation group following completion of the Proposed Acquisitions, will gain stronger leverage and bargaining power to secure continuous usage of the "AirAsia" brand which is an established brand in the aviation industry, and to secure continuous collaborations and comprehensive support services from the AirAsia Ecosystem to run our airline operations effectively and in a cost-efficient manner. Without these benefits, our Group would face significant challenges in navigating through the competitive landscape of the aviation industry and securing long-term sustainability. Presently, through AirAsia MOVE app, together with the AirAsia Group's online web portal, www.airasia.com, our Group enjoys direct access to a wide market leveraging on the massive pool of users that were built over the years. In addition, a significant portion of our Group's revenue is derived from Fly-Thru services, i.e. connecting flights from the short-haul networks of the AAB Group.*

  For information purposes, the AirAsia Ecosystem encompasses multiple aspects of travel, lifestyle and aviation which support the airlines' business, including AirAsia Group's online sales channels, maintenance, repair and overhaul services, digital payment and financial services, cargo and logistics services, ground handling services, in-flight meal services and a shared services centre."

WYNCORP's comments
We are of the view that this rationale is valid and reasonable, taking into consideration that AAX Group may be exposed to potential cost increase and/or certain degree of disruption to its operations, should the Proposed Acquisitions did not take place and Capital A eventually resolved to dispose of AAAGL and AAB to other party, who may not seek to continue or renew the current arrangement of AAX Group within the AirAsia Ecosystem in connection with AAAGL Group and AAB Group (including brand licensing, cross-marketing under the Fly-Thru services, aircraft leasing arrangements, and other operational services); which may result in AAX Group having to seek for alternative replacement supplier(s) or commit additional resources to establish own/in-house functions for those areas that AAX Group is currently leveraging on the AirAsia Ecosystem. This process would be time-consuming and would potentially result in material additional costs to AAX Group's business operations.

Premised on the above, we are of the view that the rationale for the Proposed Acquisitions is <u>reasonable</u> and <u>not detrimental</u> to the interest of the non-interested Shareholders of AAX.

We wish to highlight that the potential benefits from the Proposed Acquisitions are subject to risk factors as set out in Section 10, Part A of the Circular. Accordingly, we wish to draw your attention to our comments as set out in Section 7.6 of this IAL.

7.2 Evaluation of the Total Purchase Consideration

7.2.1 Basis and justification for the AAAGL Purchase Consideration and AAB Purchase Consideration

We noted in Section 4.3 and Section 5.2 of Part A of the Circular respectively that, in justifying the AAAGL Purchase Consideration (RM3,000.00 million) and AAB Purchase Consideration (RM3,800.00 million), the Board (save for the Interested Directors) has taken into consideration the following:

(i) rationale and benefits of the Proposed Acquisitions as set out in Section 8.3, Part A of the Circular;

(ii) outlook of the aviation industry and prospects of the Target Companies and the New Aviation Group as set out in Section 9, Part A of the Circular;

(iii) the AAAGL Purchase Consideration (RM3,000.00 million) falls within the range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at the valuation date of 31 December 2023, whilst the AAB Purchase Consideration (RM3,800.00 million) falls within the range of valuation for the entire AAB Equity Interest of between RM3,721.00 million and RM4,602.00 million as at the valuation date of 31 December 2023, based on the valuation undertaken by Deloitte as set out in the Valuation Letter attached in Appendix VI(A) of the Circular; and

(iv) the AAAGL Purchase Consideration (RM3,000 million) represents a discount of approximately RM285.50 million or 8.69% to the mid-point of the valuation range for AAAGL (being RM3,285.50 million), whilst the AAB Purchase Consideration (RM3,800.00 million) represents a discount of approximately RM361.50 million or 8.69% to the mid-point of the valuation range for AAB (being RM4,161.50 million); and the Total Purchase Consideration (RM6,800.00 million) represents a discount of approximately RM647.00 million or 8.69% to the aggregate of the mid-point of the valuation range for AAAGL and AAB (being RM7,447.00 million).

We noted that Deloitte has been appointed by Capital A and AAX to conduct an independent valuation on AAAGL and AAB. Please refer to Appendix VI(A) of the Circular for the Valuation Letter issued by Deloitte.

7.2.2 Evaluation on the fairness of the Total Purchase Consideration

(1) Valuation currencies

We noted that the valuation of the respective entities has been performed based on the reporting currencies of the respective entities. Thereafter, for presentation purposes, the resulting valuation of the respective entities (based on their respective reporting currency) have been converted to USD and RM based on the applicable exchange rates as at the evaluation date of 31 December 2023 ("**Evaluation Date**"). The applicable exchange rates adopted as summarised in Table 1 below: -

Table 1 – Exchange rate as of the Evaluation Date

Entity	Country of incorporation	Reporting currency	Exchange rate to USD	Exchange rate to RM
AOCs				
AAB	Malaysia	RM	0.2180	1.0000
IAA	Indonesia	IDR	0.0001	0.0003
PAA	Philippines	PHP	0.0181	0.0828
TAA	Thailand	THB	0.0291	0.1334
Holding companies				
AAAGL	Malaysia	USD	1.0000	4.5875
AAID	Indonesia	IDR	0.0001	0.0003
AAI	Philippines	PHP	0.0181	0.0828
AAV	Thailand	THB	0.0291	0.1334

Remark: -

o *The exchange rates above have been rounded to the nearest 4 decimal points for presentation purposes.*

(Source: Deloitte's Valuation Letter)

As the operations of AAAGL and AAB involved multiple countries, we opine that: -

(i) the adoption of reporting currency of the respective entities as the primary currency in appraising the range of market value of the respective entities; and

(ii) the ultimate translation into RM based on the exchange rate as of the Evaluation Date for the purpose of determining the purchase consideration for the Proposed Acquisitions;

is appropriate and reasonable.

(2) Method of valuation

We noted that the following valuation methods have been considered by Deloitte in appraising the valuation range of AAAGL and AAB: -

	AOCs	Holding Companies
Primary approach	Income approach	Adjusted book value approach
Secondary approach, for cross-checking purposes	Market approach	Not applicable

(i) Income approach – The income approach provides an indication of value by converting future cash flow to a single current value, as defined by the International Valuation Standards ("**IVS**"). The income approach should be applied under the following circumstances: -

(a) the income-producing ability of the subject asset is the critical element affecting value; and/or

(b) reasonable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

In the context of the Proposed AAAGL Acquisition, the income-producing ability of the AOCs (namely, TAA, PAA and IAA) is the critical element affecting their values. Similarly, in the context of the Proposed AAB Acquisition, the income-producing ability of AAB as an AOC is the critical element affecting its values. As such, we are of the view that the adoption of income approach – discounted cash flows ("**DCF**") method by Deloitte in appraising the valuation range for the AOCs (namely, TAA, PAA, IAA and AAB) is appropriate and reasonable.

(ii) Market approach – The market approach provides an indication of value by comparing the subject asset with identical or comparable (that is similar) assets for which price information is available, as defined by the IVS. The market approach should be applied under the following circumstances: -

(a) the subject asset has recently been sold in a transaction appropriate for consideration under the basis of value;

(b) the subject asset or substantially similar assets are actively publicly traded; and/or

(c) there are frequent and/or recent observable transactions in substantially similar assets.

In the context of the Proposed AAAGL Acquisition and Proposed AAB Acquisition, we noted that market approach – guideline public company method ("**GPCM**") has been used as secondary valuation method (for cross-checking purposes) by Deloitte in appraising the range of market values for the AOCs (namely, TAA, PAA, IAA and AAB). The enterprise value ("**BEV**") over earnings before interest, tax, depreciation, amortisation and rental ("**EBITDAR**") ("**BEV/EBITDAR**") multiple of the guideline public companies ("**GPCs**") are considered as key valuation metrics. We are of the view that the adoption of GPCM by Deloitte as the secondary valuation method (for cross-checking purposes) is appropriate and reasonable, given that there are other similar (although not entirely identical) publicly-traded airline companies available for comparison.

(iii) Adjusted book value approach – The adjusted book value approach measures the net value of an enterprise after its assets and liabilities have been adjusted to its market value as at the valuation date.

In the context of the Proposed AAAGL Acquisition, we noted that: -

(a) the adjusted book value approach has not been applied by Deloitte in appraising the valuation range for the AOCs (namely, TAA, PAA and IAA) given that the net assets of the AOCs may not be reflective of their future earning capabilities; and

(b) the adjusted book value approach has been principally applied by Deloitte in appraising the valuation range for the holding companies within the AAAGL Group, given that their respective net assets as at the valuation date would be reflective of their market values as holding companies.

We are of the view that the adjusted book value approach adopted by Deloitte in appraising the valuation range for the holding companies within the AAAGL Group is appropriate and reasonable, taking into consideration the following: -

o the AOCs (namely, TAA, PAA and IAA), which constitute the core income-generating entities held by the respective holding companies, have been valued based on the income approach – DCF method and cross-checked using the market approach – GPCM as the secondary valuation method;

- the book values of the respective holding companies have been adjusted to reflect the uplift in investment values arising from the difference between the fair values of the AOCs and the current book values of the investment in the AOCs held by the respective holding companies; and

- Other entities held by the respective holding companies are either dormant, or not expected to contribute significantly to the future earnings of AAAGL Group as at the Evaluation Date.

In the context of the Proposed AAB Acquisition, we noted that the adjusted book value approach has not been applied by Deloitte, given that the net assets of AAB may not be reflective of the future earning capabilities of AAB as an AOC. We are of the view that this is appropriate and reasonable.

(3) Valuation

Proposed AAAGL Acquisition and AAAGL Purchase Consideration

The valuation of AAAGL Group is subject to the following general basis and assumptions: -

(i) the risks relating to the Proposed AAAGL Acquisition as summarised in Section 7.6 of this IAL (further details of which as set out in Section 10, Part A of the Circular) will not materialise, or in the unforeseen circumstances should one or more of those risks materialise, there will be no material adverse impact on the financial performance, financial position and operations of AAAGL Group and the New Aviation Group;

(ii) there are no material adverse changes to the book values and fair value of the AAAGL's investments in the AOCs (namely, TAA, PAA and IAA) and the intermediate holding companies (namely, AAV, AAI and AAID) from the Evaluation Date up to the completion date of the Proposed AAAGL Acquisition;

(iii) the time value implications, if any, from the Evaluation Date up to the actual completion date of the Proposed AAAGL Acquisition is not material;

(iv) there will be no material changes in the prevailing legislation, government regulations, inflation rates, interest rates, foreign exchange rates, taxation rates and any other applicable regulatory requirements which will materially and adversely affect the financial performance, financial position and operations of AAAGL Group and the New Aviation Group; and

(v) AAAGL Group will continue as a going concern, and the future financial performance and growth of the AOCs will meet the projected levels without any material adverse change to the requisite capital and cash flows requirements.

We are of the view that these general basis and assumptions are reasonable, as the business operations of the AAAGL Group are expected to continue as a going concern and the financial and cash flows projections are expected to be achieved without any material adverse changes.

(i) Income Approach for the AOCs (namely, TAA, PAA and IAA)

We noted that the AOCs considered by Deloitte in appraising the valuation range of AAAGL consist of TAA, PAA and IAA. We further noted that where applicable, Deloitte has referred to FYE 31 December 2019 as a base year in analysing the projections of each AOC, as FYE 31 December 2019 represents the financial performance of the respective AOCs prior to the COVID-19 pandemic.

The key bases and assumptions applied by Deloitte in appraising the range of market values for the AOCs under the income approach – DCF method are summarised below: -

Key bases and assumptions	WYNCORP's comments
o An explicit forecast period of 5 years (between FYE 31 December 2024 and FYE 31 December 2028) is applied for TAA, PAA and IAA.	We are of the view that this is appropriate and reasonable, as the explicit forecast period of 5 years would allow the effects arising from the ongoing and anticipated expansion plans of the AOCs to be reflected.
o The cash flows of AOCs are projected to grow in perpetuity after FYE 31 December 2028, using the following terminal year growth rate: - (i) TAA : 1.0% (ii) PAA : 3.0% (iii) IAA : 3.0%	We noted that the terminal year growth rate applied by Deloitte is based on the 20-year long-term inflation rate applicable to the respective countries in which the AOCs operate, sourced from Economist Intelligence Unit. We are of the view that the terminal year growth rate applied by Deloitte for the AOCs, is appropriate and with reasonable basis; taking into consideration that the AOCs are intended to continue as a going concern without any internally-prescribed time limit (namely, in perpetuity) under the New Aviation Group.
o Revenue is expected to grow at the following CAGRs: - (i) TAA : 11.0% (between 2024 and 2028) and 5.0% (between 2019 and 2028) (ii) PAA : 15.0% (between 2024 and 2028) and 11.0% (between 2019 and 2028) (iii) IAA : 21.0% (between 2024 and 2028) and 14.0% (between 2019 and 2028)	We noted that the revenue growth trend is consistent with the overall increasing trend expected for the aviation industry in the long run. We noted that revenue of TAA is estimated to grow at CAGR of 11.0% (between 2024 and 2028) and 5.0% (between 2019 and 2028). We observed that the estimated growth rates are reasonable after taking into consideration: - (a) the CAGR of 5.0%, over a longer time horizon (between 2019 and 2028), is relatively consistent with the overall long-term growth (2023-2043) for the Asia Pacific region (estimated at 5.3%, based on the Global Outlook for Air Transport, June 2024 by IATA); (b) whilst the CAGR of 11.0%, over a shorter time horizon (between 2024 and 2028), is higher than the overall long-term growth (2023-2043) for the Asia Pacific region, it is reasonable after taking into consideration the historical year-on-year growth rates (ranging from 3.3% to 11.1%) achieved by TAA prior to the COVID-19 pandemic between 2015 and 2019;

Key bases and assumptions	WYNCORP's comments
	(c) the growth in revenue by TAA is in line with its business plan to increase flight frequency of existing routes and introduce new routes, both of which are expected to be achieved by increasing the fleet size of TAA. The ability of TAA to increase its fleet size is supported by the current order of aircraft from Airbus, where the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035); and (d) the assumed contribution of passenger revenues (which relate to scheduled passenger flights, chartered flight income and ancillary revenue including insurance charge and baggage fee) and freight services revenue of 99.0% and 1.0% respectively between FYE 31 December 2024 and FYE 31 December 2028 is fair, as it is consistent with the historical trend where passenger revenues accounted for approximately 99.3% of total revenue whilst freight services revenue accounted for 0.7% of the total revenue based on historical financial data in 2019 (being the financial performance prior to the COVID-19 pandemic). We noted that revenue of PAA is estimated to grow at CAGR of 15.0% (between 2024 and 2028) and 11.0% (between 2019 and 2028). We observed that whilst the growth rates are higher than the overall long-term growth (2023-2043) for the Asia Pacific region (estimated at 5.3%, based on the Global Outlook for Air Transport, June 2024 by IATA), the estimated growth rates are reasonable after taking into consideration: - (a) the historical year-on-year growth rates (ranging from 30.4% to 50.1%) achieved by PAA prior to the COVID-19 pandemic between 2015 and 2019; (b) the growth in revenue by PAA is in line with its business plan to increase flight frequency of existing routes and introduce new routes, both of which are expected to be achieved by increasing the fleet size of PAA. The ability of PAA to increase its fleet size is supported by the current order of aircraft from Airbus, where the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035); and

Key bases and assumptions	WYNCORP's comments
	(c) the assumed contribution of passenger revenues (which relate to scheduled passenger flights, chartered flight income and ancillary revenue including insurance charge and baggage fee) and freight services revenue of 99.0% and 1.0% respectively between FYE 31 December 2024 and FYE 31 December 2028 is fair, as it is consistent with the historical trend where passenger revenues accounted for approximately 98.7% of total revenue whilst freight services revenue accounted for 1.3% of the total revenue based on historical financial data in 2019 (being the financial performance prior to the COVID-19 pandemic). We noted that revenue of IAA is estimated to grow at CAGR of 21.0% (between 2024 and 2028) and 14.0% (between 2019 and 2028). We observed that whilst the growth rates are higher than the overall long-term growth (2023-2043) for the Asia Pacific region (estimated at 5.3%, based on the Global Outlook for Air Transport, June 2024 by IATA), the estimated growth rates are reasonable after taking into consideration: - (a) the historical year-on-year growth rates (ranging from negative 23.0% to positive 58.5%) achieved by IAA prior to the COVID-19 pandemic between 2015 and 2019; (b) the growth in revenue by IAA is in line with its business plan to increase flight frequency of existing routes and introduce new routes, both of which are expected to be achieved by increasing the fleet size of IAA. The ability of IAA to increase its fleet size is supported by the current order of aircraft from Airbus, where the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035); and (c) the assumed contribution of passenger revenues (which relate to scheduled passenger flights, chartered flight income and ancillary revenue including insurance charge and baggage fee) and freight services revenue of 98.0% and 2.0% respectively between FYE 31 December 2024 and FYE 31 December 2028 is fair, as it is consistent with the historical trend where passenger revenues accounted for approximately 98.7% of total revenue whilst freight services revenue accounted for 1.3%

Key bases and assumptions	WYNCORP's comments
	of the total revenue based on historical financial data in 2019 (being the financial performance prior to the COVID-19 pandemic). Notwithstanding that a higher revenue growth rate has been applied for the AOCs (of which the management plans to achieve by offering new routes and increasing the frequency in existing routes served by the AOCs, to be backed by increased fleet size and passenger capacity), a company specific risk premium ("**CSRP**") has been applied and imputed in the discount rate to address the potential uncertainties of the AOCs in achieving the projected numbers. Premised on the above, we are of the view that the revenue growth rates are appropriate and reasonable.
o The operating expenditures include fuel costs, operating leases, maintenance and overhaul expenses, user charges, staff costs and other costs.	We are of the view that the operating expenditures adopted are appropriate and reasonable, as these are consistent with the actual costs incurred by AOCs in previous financial years and assumed to grow in tandem with the revenue growth.
o Others, comprising the following: - • Unutilised tax losses are expected to be utilised and offset against projected earnings before interest and tax ("**EBIT**") between FYE 31 December 2024 to FYE 31 December 2028: - (i) TAA: Unutilised tax losses are expected to be utilised and offset against its projected EBIT between FYE 31 December 2024 to FYE 31 December 2027. Tax expenses have been assumed from FYE 31 December 2028 onwards at Thailand statutory tax rate of 20.0% (ii) PAA : Unutilised tax losses are expected to be utilised and offset against its projected EBIT between FYE 31 December 2024 to FYE 31 December 2025. Tax expenses have been assumed from FYE 31 December 2026 onwards at Philippines statutory tax rate of 25.0% (iii) IAA : Unutilised tax losses are expected to be utilised and offset against its projected EBIT between FYE 31 December 2024 to FYE 31	We noted that the AOCs have unutilised tax losses, which are allowed to be carried forward and offset against future profits generated by the AOCs. This is consistent with the prevailing tax regulations of the individual countries in which the AOCs operate. We further noted that the assumed corporate tax rates are consistent with the prevailing statutory corporate tax rate of the individual countries in which the AOCs operate. We noted that the forecasted capital expenditure is on the basis of replenishing depreciated assets with new assets and not to facilitate expansion of operations and not to facilitate expansion of operations or increased capacity. We further noted that the projected rates fall within the range based on historical trends. The assumed trade receivable turnover days of less than 1 week is reasonable and consistent with the commercial practice of the AOCs, as the transactions for passenger revenues (representing the main revenue contributor to the AOCs) are normally on cash terms. The assumed trade payable turnover days and other working capital requirements are consistent with historical trends. Premised on the above, we are of the view that other key bases and assumptions (comprising

Key bases and assumptions	WYNCORP's comments
December 2027. Tax expenses have been assumed from FYE 31 December 2028 onwards at Indonesia statutory tax rate of 22.0% • Capital expenditure for non-aircraft operating assets is projected to be: - (i) TAA : Approximately 0.2% of its total projected revenue between FYE 31 December 2024 and FYE 31 December 2028 (ii) PAA : Approximately 2.0% of its total projected revenue between FYE 31 December 2024 and FYE 31 December 2028 (iii) IAA : Approximately 1.0% of its total projected revenue between FYE 31 December 2024 and FYE 31 December 2028 • The working capital requirements of the have been assumed as follows: - - Trade receivable turnover days (i) TAA : Less than 1 week (ii) PAA : Less than 1 week (iii) IAA : Less than 1 week - Trade payable turnover days (i) TAA : Between 30 and 45 days (ii) PAA : Between 30 and 70 days (iii) IAA : Between 30 and 45 days - Other working capital requirements are based on historical trends and discussions with management.	taxation, capital expenditure for non-aircraft operating assets and the working capital requirements) adopted by Deloitte is fair and reasonable.
o The discount rates adopted have been developed based on the weighted average cost of capital ("**WACC**"). Amongst others, the WACC are based on the following: - (i) Cost of equity with reference to the respective markets which the AOCs operate in using the international cost of capital approach, which assumes adjustments for country risk factors and inflation differentials from a cost of capital benchmark based on a mature financial market. The US have been applied as a benchmark, and a US equity risk premium of approximately 5.0%, adjusted for country risk and inflation rate differentials ranging from approximately 2.0% to 4.0% have been	We noted that the WACC adopted for the respective AOCs is higher than the average cost of capital for the airline industry (about 9.1% based on the 2024 estimation by IATA), commensurate with the potential uncertainties of the AOCs in achieving the projected numbers. We noted that the discount rates applied have taken into consideration both commonly-applied parameters and company-specific parameters. In particular, we observed that: - (a) in estimating the commonly-applied parameters (such as the risk-free rate, equity risk premium, industry beta, debt yield rate and capital structure), standard market/industry inputs and measures are being adopted; and

Key bases and assumptions	WYNCORP's comments
adopted; (ii) Pre-tax cost of debt ranges from approximately 6.0% to 9.0%; (iii) Debt-to-capital ratio of approximately 30.0%; and (iv) Additional risk premiums, as appropriate, to consider uncertainties and risks attributable to the cash flow projections of the respective AOCs. o The adopted WACC for the respective AOCs are summarised below: - (i) TAA : 12.0% to 14.5% (ii) PAA : 17.0% to 19.0% (iii) IAA : 17.5% to 19.0%	(b) the commonly-applied parameters are then adjusted for country-specific parameters (such as risk premium, country-specific spread for debt yield rate, inflation rate, tax rate) and company-specific parameters (such as size premium and risk premium) to give effect to the differentials amongst the AOCs. We are of the view that the application of country-specific risk premiums is appropriate. Based on the research data published on Professor Damodaran's website, we have applied the following rates in the countries in which the AOCs operate: - (i) TAA : 2.3% (ii) PAA : 2.8% (iii) IAA : 2.8% To compensate for the uncertainties and risks attributable to the financial and cash flows projections of the AOCs such as the achievability of the projected revenue and profit growth as well as successful and timely implementation of the business plans (namely, to increase the flight frequency of existing routes and introduce new routes, both of which to be achieved by increasing the fleet size of the AOCs), we have applied the following company-specific risk premiums: - (i) TAA : 4% to 6% (ii) PAA : 8% to 10% (iii) IAA : 8% to 10% We noted that the WACC adopted is consistent with the range of discount rates computed by us applying the country-specific risk premiums and company-specific risk premiums indicated above. We further observed that the WACC adopted for the PAA and IAA are higher as compared to TAA, mainly due to a higher CSRP being assigned for PAA and IAA, to compensate for the increased level of uncertainties associated with the higher revenue growth rates forecasted. Premised on the above, we are of the view that the discount rates adopted are appropriate and reasonable.

Premised on the above key bases and assumptions, the 100% equity values of the AOCs (namely, TAA, PAA and IAA) on marketable and control basis appraised by Deloitte under the income approach – DCF method are as follows: -

	Valuation Range					
	TAA		PAA		IAA	
	Low (THB' mil)	High (THB' mil)	Low (PHP' mil)	High (PHP' mil)	Low (IDR' bil)	High (IDR' bil)
Business enterprise value ("**BEV**")[(1)]	25,757	31,889	17,020	21,679	3,683	4,345
Adjustment for Net debt	(1,792)	(1,792)	(10,997)	(10,997)	(3,031)	(3,031)
Equity value (reporting currency)	23,966	30,098	6,023	10,683	652	1,314
Equity value (USD' mil)	**697**	**875**	**109**	**193**	**42**	**85**
Equity value (RM' mil)	**3,198**	**4,016**	**499**	**885**	**196**	**394**

Remarks: -
- *"Mil" denotes million(s).*
- *"Bil" denotes billion(s).*
- *Due to rounding, the numbers presented in the table may not add up precisely to the totals provided.*

Note: -

(1) BEV is derived from the DCF, comprising the present value of discrete cash flows over the explicit forecast period of 5 years (between FYE 31 December 2024 and FYE 31 December 2028) and the present value of terminal year value, and after adjusting for excess/deficit in working capital changes.

Based on the cash flow projections made available by the management and the WACC adopted, we have computed the present value of the terminal value for the respective AOCs to be as follows: TAA (Approximately THB 15,000 million – THB 20,000 million); PAA (Approximately PHP 19,000 million – PHP 23,000 million; IAA (Approximately IDR 3,000 billion – IDR 4,000 billion). This is consistent with the respective AOCs' management's plan to grow their operations via increased fleet size and flight frequency, and introduction of new routes across the projection period from FYE 31 December 2024 to FYE 31 December 2028. The operations of the AOCs are expected to achieve a stable state by FYE 31 December 2028, and thereafter grow in perpetuity at a nominal growth rate based on the long-term inflation rates of the countries in which AOCs operate.

Secondary valuation method (for cross-checking purposes)

We noted that the 100% equity values of the AOCs (namely, TAA, PAA and IAA) on marketable and control basis appraised by Deloitte under the income approach – DCF method are cross-checked against the results derived based on market approach – GPCM and the outcomes support the valuation range derived under the income approach – DCF method.

For illustrative purposes only, we have computed the valuation based on market approach – GPCM using the average of market multiples and data from the financial projections furnished by the management, the results as summarised below: -

	Valuation Range		
	TAA	PAA	IAA
	(RM' mil)	(RM' mil)	(RM' mil)
Equity values of AOCs derived based on market approach – GPCM using the average of market multiples	4,750	650	380
Equity values of AOCs derived based on income approach – DCF method by Deloitte	3,198 – 4,016 (Mid-point: 3,607)	499 – 885 (Mid-point: 692)	196 – 394 (Mid-point: 295)

Remark: -

○ *"Mil" denotes million(s).*

The mid-point of valuation range derived based on the income approach – DCF method is consistent or lower as compared to the valuation derived based on market approach – GPCM using the average of market multiples. We are of the view that the valuation range derived based on the income approach – DCF method (which is a more appropriate approach to reflect the future earnings capabilities of the AOCs) is justifiable.

(ii) Adjusted Book Value Approach for the Holding Companies

We noted that the holding companies being appraised by Deloitte under the adjusted book value approach include the following: -

(a) AAAGL (being the subject company of the Proposed AAAGL Acquisition);

(b) AAV, being the intermediate holding company of TAA;

(c) AAI, being the intermediate holding company of PAA; and

(d) AAID, being the intermediate holding company of IAA.

The following key bases and assumptions are being applied by Deloitte in appraising valuation range for the holding companies under the adjusted book value approach: -

(a) The audited net book value of the respective holding companies as of the valuation date (being 31 December 2023) has been adopted;

(b) Adjustments to the book value mainly pertain to the fair value upliftment of their investments in subsidiaries and associates based on the market values of the AOCs derived using the income approach – DCF method; and

(c) The carrying amount of other assets and liabilities have been assumed to approximate their market value.

The 100% equity values of intermediate holding companies (namely AAV, AAI and AAID) derived based on the adjusted book value approach are summarised below: -

	Valuation Range					
	AAV		AAI		AAID	
	Low (THB' mil)	High (THB' mil)	Low (PHP' mil)	High (PHP' mil)	Low (IDR' bil)	High (IDR' bil)
Audited book value, as at 31 December 2023[1]	17,015	17,015	6,176	6,176	2,567	2,567
Adjustment for Upliftment in fair value of investments[2]	7,081	13,213	6,003	10,646	(2,228)	(1,849)
Adjusted book value (reporting currency)	24,095	30,227	12,178	16,822	339	718
Equity value (USD' mil)	**701**	**879**	**220**	**304**	**22**	**47**
Equity value (RM' mil)	**3,215**	**4,034**	**1,008**	**1,393**	**102**	**215**

Remarks: -

- *"Mil" denotes million(s).*
- *"Bil" denotes billion(s).*
- *Due to rounding, the numbers presented in the table may not add up precisely to the totals provided.*

Notes: -

(1) Based on the audited net assets of the respective intermediate holding companies, and after adjustments to reflect the latest plan for internal reorganisation and capitalisation of debts to be completed prior to the Proposed AAAGL Acquisition.

(2) The upliftment in fair value of investments is derived in the following manner: -

	AAV		*AAI*		*AAID*	
	Low (THB' mil)	*High (THB' mil)*	*Low (PHP' mil)*	*High (PHP' mil)*	*Low (IDR' bil)*	*High (IDR' bil)*
Fair value of investment in AOCs, based on the effective equity interest	*[a]23,966*	*[a]30,098*	*[b]6,003*	*[b]10,646*	*[c]373*	*[c]752*
Less: Carrying amount of intermediate holding companies' investments in the AOCs as at 31 December 2023	*(16,885)*	*(16,885)*	*-*	*-*	*(2,601)*	*(2,601)*
Upliftment in fair value of investments	*7,081*	*13,213*	*6,003*	*10,646*	*(2,228)*	*(1,849)*

Notes: -

(a) Calculated based on the valuation range determined using the income approach – DCF method (namely, low-range equity value of THB23,966 million and high-range equity value of THB30,098 million respectively), multiplied by the equity interest of 100.00% held in TAA.

(b) Calculated based on the valuation range determined using the income approach - DCF method (namely, low-range equity value of PHP6,023 million and high-range equity value of PHP10,683 million respectively), multiplied by the equity interest of 99.66% held in PAA.

(c) Calculated based on the valuation range determined using the income approach – DCF method (namely, low-range equity value of IDR652 billion and high-range equity value of IDR1,314 billion respectively), multiplied by the equity interest of 57.25% held in IAA.

Based on the valuation range of the AOCs (namely, TAA, PAA and IAA) and their respective intermediate holding companies (namely, AAV, AAI and AAID) as appraised by Deloitte, the valuation range for AAAGL has been appraised by Deloitte using the adjusted book value approach as illustrated below: -

	Low range (USD' mil)	High range (USD' mil)
Audited NA of AAAGL as at 31 December 2023[(1)(2)]	183	183
Adjustments: -		
o Upliftment in fair value of AAAGL's investments[(3)]	(61)	116
o Capital contribution from Capital A arising from capitalisation of the intercompany debts amongst Capital A, the AAAGL Group and AAB Group	505	505
o Cost of investment incurred for the acquisition of 100% equity interest in AA Com Travel Philippines Inc. from Move Travel Sdn Bhd (formerly known as AirAsia Com Travel Sdn Bhd), a subsidiary of Capital A, which was completed on 25 March 2024	* *(Represents negative USD0.2 mil)*	* *(Represents negative USD0.2 mil)*
Adjusted net assets value of AAAGL	**628**	**805**
Range of valuation (RM' mil)	**2,880**	**3,691**

Notes: -

(1) The audited NA of AAAGL as at 31 December 2023 of USD183 million is at the company level.

(2) For information purposes, the audited total shareholders' deficit of AAAGL as at 31 December 2023 at the group level is RM2,234.00 million (equivalent to approximately USD517.61 million) and after adjusting for the Vendor's Pre-Completion Restructuring, the pro forma total shareholders' deficit of AAAGL Group as at 31 December 2023 is RM970.78 million (equivalent to approximately USD224.93 million*).*

Note: -

** Based on Bank Negara Malaysia's closing middle exchange rate of USD1 : RM4.3160 as at the LPD.*

The shareholders' deficit and the effects of the Vendor's Pre-Completion Restructuring have been considered in determining the AAAGL Purchase Consideration. In order to derive the adjusted net assets value / valuation of AAAGL, Deloitte has derived the valuation of its major operating subsidiaries / AOCs using the DCF method. The DCF method, amongst others, incorporates the future cash flows arising from the operating assets and liabilities in the AOCs as at 31 December 2023, whereas non-operating assets and liabilities as at 31 December 2023 are adjusted against the business enterprise values (being the value of the business attributable to all providers of finance) in arriving at the respective equity values (being the value of the business attributable to equity holders) of the AOCs.

A fair value upliftment is subsequently applied to the audited NA of AAAGL as at 31 December 2023, calculated based on:-

(a) *the fair value of AAAGL's investment stake in the AOCs; and*

(b) *the fair value of AAAGL's indirect investment stake in the AOCs, based on the adjusted book value of intermediate holding companies after incorporating the fair value of the AOCs.*

The adjusted net assets value / valuation of AAAGL has also included the effects from the Vendor's Pre-Completion Restructuring.

(3) *Upliftment in fair value of investments consist of the following: -*

	Low range (USD' mil)	High range (USD' mil)
o *Upliftment in fair value of investment in IAA, calculated based on the valuation range determined using the income approach – DCF method (namely, low-range equity value of USD42 million and high-range equity value of USD85 million respectively), multiplied by the equity interest of 20.95% held in IAA*	9	18
o *Upliftment in fair value of investment in AAV, calculated based on the valuation range determined using the adjusted book value approach (namely, low-range equity value of USD701 million and high-range equity value of USD879 million respectively), multiplied by the equity interest of 40.71% held in AAV*	285	358
o *Upliftment in fair value of investment in AA Com Travel Philippines Inc., calculated based on the valuation range determined using the adjusted book value approach (namely, low-range equity value of USD116 million and high-range equity value of USD166 million).*	116	166
o *Upliftment in fair value of investment in AAI, calculated based on the valuation range determined using the adjusted book value approach (namely, low-range equity value of USD220 million and high-range equity value of USD304 million), multiplied by equity interest of 40.00% held in AAI*	88	121
o *Upliftment in fair value of investment in AAID, calculated based on the valuation range determined using the adjusted book value approach (namely, low-range equity value of USD22 million and high-range equity value of USD47 million), multiplied by equity interest of 46.25% equity interest held in AAID*	10	22
o *Cost value of the Investment in convertible bond issued by AAI*[(1)]	25	25
Total	533	710
Less:		
Adjusted carrying amount of AAAGL's investments as at 31 December 2023[(2)]	(594)	(594)
Upliftment in fair value of AAAGL's investments	***(61)***	***116***

Notes:-

(1) In May 2013, AAI issued USD25 million redeemable, unsecured convertible bonds to AAAGL. The bonds bear interest of 6% per annum.

(2) The carrying amount of AAAGL's investments as at 31 December 2023 has been adjusted to reflect the novation of perpetual capital securities in IAA held by AAB to AAAGL for a consideration of RM1,090.58 million.

Proposed AAB Acquisition and AAB Purchase Consideration

The valuation of AAB is subject to the following general basis and assumptions: -

(i) the risks relating to the Proposed AAB Acquisition as summarised in Section 7.6 of this IAL (further details of which as set out in Section 10, Part A of the Circular) will not materialise, or in the unforeseen circumstances should one or more of those risks materialise, there will be no material adverse impact on the financial performance, financial position and operations of AAB and the New Aviation Group;

(ii) there are no material adverse changes to the book values of AAB from the Evaluation Date up to the completion date of the Proposed AAB Acquisition;

(iii) the time value implications, if any, from the Evaluation Date up to the actual completion date of the Proposed AAB Acquisition is not material;

(iv) there will be no material changes in the prevailing legislation, government regulations, inflation rates, interest rates, foreign exchange rates, taxation rates and any other applicable regulatory requirements which will materially and adversely affect the financial performance, financial position and operations of AAB and the New Aviation Group; and

(v) AAB will continue as a going concern, and the future financial performance and growth of AAB will meet the projected levels without any material adverse change to the requisite capital and cash flows requirements.

We are of the view that these general basis and assumptions are reasonable, as the business operation of the AAB is expected to continue as a going concern and the financial and cash flows projections are expected to be achieved without any material adverse changes.

(i) Income Approach – with AAB being the AOC

Given that AAB is an AOC, the income approach has been applied by Deloitte in appraising the valuation range of AAB. We further noted that where applicable, Deloitte has referred to FYE 31 December 2019 as a base year in analysing the projections of AAB, as FYE 31 December 2019 represents the financial performance of AAB (being the AOC) prior to the COVID-19 pandemic.

The key bases and assumptions applied by Deloitte in appraising the valuation range for AAB under the income approach – DCF method are summarised below: -

Key bases and assumptions	WYNCORP's comments
o An explicit forecast period of 5 years (between FYE 31 December 2024 and FYE 31 December 2028) is applied for AAB.	We are of the view that this is appropriate and reasonable, as the explicit forecast period of 5 years would allow the effects arising from the ongoing and anticipated expansion plans of the AAB (as an AOC) to be reflected.
o The cash flows of AAB (as an AOC) are projected to grow in perpetuity after FYE 31 December 2028, using the terminal year growth rate of 2.0%.	We noted that the terminal year growth rate applied by Deloitte is based on the 20-year long-term inflation rate applicable to Malaysia in which AAB (as an AOC) operates, sourced from Economist Intelligence Unit. We are of the view that the terminal year growth rate applied by Deloitte AAB (as an AOC), is appropriate and with reasonable basis; taking into consideration that AAB (as an AOC) is intended to continue as a going concern without any internally-prescribed time limit (namely, in perpetuity) under the New Aviation Group.
o Revenue is expected to grow at the following CAGRs of 13.0% (between 2024 and 2028) and 6.0% (between 2019 and 2028).	We noted that the revenue growth trend is consistent with the overall increasing trend expected for the aviation industry in the long run. We noted that revenue of AAB (as an AOC) is estimated to grow at CAGR of 13.0% (between 2024 and 2028) and 6.0% (between 2019 and 2028). We observed that: - (a) the CAGR of 6.0%, over a longer time horizon (between 2019 and 2028), is relatively consistent with the overall long-term growth (2023-2043) for the Asia Pacific region (estimated at 5.3%, based on the Global Outlook for Air Transport, June 2024 by IATA); (b) whilst the CAGR of 13.0%, over a shorter time horizon (between 2024 and 2028), is higher than the overall long-term growth (2023-2043) for the Asia Pacific region, it is reasonable after taking into consideration the historical year-on-year growth rates (ranging from negative 0.9% to positive 12.1%) achieved by AAB (as an AOC) prior to the COVID-19 pandemic between 2015 and 2019; (c) the growth in revenue by AAB is in line with its business plan to increase flight frequency of existing routes and introduce new routes, both of which are expected to be achieved by increasing the fleet size of AAB. The ability of AAB to increase its fleet size is supported by the current order of aircraft from Airbus,

Key bases and assumptions	WYNCORP's comments
	where the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035); and (d) the assumed contribution of passenger revenues (which relate to scheduled passenger flights, chartered flight income and ancillary revenue including insurance charge and baggage fee) and freight services revenue of 99.0% and 1.0% respectively between FYE 31 December 2024 and FYE 31 December 2028 is fair, as it is consistent with the historical trend where passenger revenues accounted for approximately 98.2% of total revenue whilst freight services revenue accounted for 1.8% of the total revenue based on historical financial data in 2019 (being the financial performance prior to the COVID-19 pandemic). Notwithstanding that a higher revenue growth rate has been applied (of which the management plans to achieve by offering new routes and increasing the frequency in existing routes served by AAB (as an AOC), to be backed by increased fleet size and passenger capacity), a CSRP has been applied and imputed in the discount rate to address the potential uncertainties of AAB (as an AOC) in achieving the projected numbers. Premised on the above, we are of the view that the revenue growth rate is appropriate and reasonable.
The operating expenditures include fuel costs, operating leases, maintenance and overhaul expenses, user charges, staff costs and other costs.	We are of the view that the operating expenditures adopted are appropriate and reasonable, as these are consistent with the actual costs incurred by AAB in previous financial years and assumed to grow in tandem with the revenue growth.
o Others, comprising the following: - • Unutilised tax losses of AAB are expected to be utilised and offset against EBIT between FYE 31 December 2024 to FYE 31 December 2028. Tax expenses are assumed in the terminal period at Malaysia statutory tax rate of 24.0% • Capital expenditure for non-aircraft operating assets is projected to be approximately 1.0% of AAB's total	We noted that AAB has unutilised tax losses, which are allowed to be carried forward and offset against future profits generated by AAB. This is consistent with the prevailing tax regulations of Malaysia in which AAB operate. We further noted that the assumed corporate tax rate is consistent with the prevailing statutory corporate tax rate of Malaysia in which AAB operate. We noted that the forecasted capital expenditure is on the basis of replenishing depreciated assets with new assets and not to facilitate expansion of

<table>
<tr><th>Key bases and assumptions</th><th>WYNCORP's comments</th></tr>
<tr><td>projected revenue between FYE 31 December 2024 and FYE 31 December 2028

• The working capital requirements of AAB have been assumed as follows: -

- Trade receivable turnover days of less than 2 week

- Trade payable turnover days between 30 and 45 days

- Other working capital requirements are based on historical trends and discussions with management.</td><td>operations or increased capacity. We further noted that the projected rate falls within the range based on historical trends.

The assumed trade receivable turnover days of less than 2 week is reasonable and consistent with the commercial practice of AAB, as the transactions for passenger revenues (representing the main revenue contributor to AAB) are normally on cash terms.

The assumed trade payable turnover days and other working capital requirements are consistent with historical trends.

Premised on the above, we are of the view that other key bases and assumptions (comprising taxation, capital expenditure for non-aircraft operating assets and the working capital requirements) adopted by Deloitte is fair and reasonable.</td></tr>
<tr><td>o The discount rates adopted have been developed based on the WACC. Amongst others, the WACC are based on the following: -

(i) Cost of equity with reference to the market which AAB (as an AOC) operates in using the international cost of capital approach, which assumes adjustments for country risk factors and inflation differentials from a cost of capital benchmark based on a mature financial market. The US have been applied as a benchmark, and a US equity risk premium of approximately 5.0%, adjusted for country risk and inflation rate differentials of approximately 2.0% have been adopted;

(ii) Pre-tax cost of debt of approximately 7.0%;

(iii) Debt-to-capital ratio of approximately 30.0%; and

(iv) Additional risk premiums, as appropriate, to consider uncertainties and risks attributable to the cash flow projections of AAB (as an AOC).

o The adopted WACC for AAB (as an AOC) are 12.5% to 14.5%.</td><td>We noted that the WACC adopted for AAB (as an AOC) is higher than the average cost of capital for the airline industry (about 9.1% based on the 2024 estimation by IATA), as CSRP has been applied and imputed to address the potential uncertainties of AAB (as an AOC) in achieving the projected numbers.

We noted that the discount rates applied have taken into consideration both commonly-applied parameters and company-specific parameters. In particular, we observed that: -

(a) in estimating the commonly-applied parameters (such as the risk-free rate, equity risk premium, industry beta, debt yield rate and capital structure), standard market/industry inputs and measures are being adopted; and

(b) the commonly-applied parameters are then adjusted for country-specific parameters (such as risk premium, country-specific spread for debt yield rate, inflation rate, tax rate) and company-specific parameters (such as size premium and risk premium) to give effect to the differentials.

We are of the view that country-specific risk premium of 1.8% is appropriate and shall be applied, based on the research data published on Professor Damodaran's website and in accordance with the country in which AAB operate (namely, Malaysia).</td></tr>
</table>

Key bases and assumptions	WYNCORP's comments
	To compensate for the uncertainties and risks attributable to the financial and cash flows projections of AAB such as the achievability of the projected revenue and profit growth as well as successful and timely implementation of the business plans (namely, to increase the flight frequency of existing routes and introduce new routes, both of which to be achieved by increasing the fleet size of AAB), we have applied the company-specific risk premium of 4% to 6%. We noted that the WACC adopted is consistent with the range of discount rates computed by us applying the country-specific risk premium and company-specific risk premiums indicated above. Premised on the above, we are of the view that the discount rates adopted are appropriate and reasonable.

Premised on the above key bases and assumptions, the 100% equity values of AAB (as an AOC) on marketable and control basis appraised by Deloitte under the income approach – DCF method are as follows: -

	Valuation Range – AAB	
	Low (RM' mil)	**High (RM' mil)**
BEV[(1)]	2,278	3,158
<u>Adjustment for</u>		
Net debt	1,444	1,444
Equity value (reporting currency) / Equity value (RM' mil)	**3,721**	**4,602**

<u>Remarks: -</u>
- *"Mil" denotes million(s).*
- *Due to rounding, the numbers presented in the table may not add up precisely to the totals provided.*

<u>Note: -</u>

(1) BEV is derived from the DCF, comprising the present value of discrete cash flows over the explicit forecast period of 5 years (between FYE 31 December 2024 and FYE 31 December 2028) and the present value of terminal year value, and after adjusting for excess/deficit in working capital changes.

Based on the cash flow projections made available by the management and the WACC adopted, we have computed the present value of the terminal value for AAB (as the AOC) to be approximately RM 2,900 million – RM 3,700 million. This is consistent with AAB's management's plan to grow its operation via increased fleet size and flight frequency, and introduction of new routes across the projection period from FYE 31 December 2024 to FYE 31 December 2028. AAB's operation is expected to achieve a stable state by 2028, and thereafter grow in perpetuity at a nominal growth rate based on the long-term inflation rate of Malaysia in which AAB operate.

For information purposes, the audited total shareholders' deficit of AAB Group as at 31 December 2023 is RM1,504.69 million and after adjusting for the Vendor's Pre-Completion Restructuring, the pro forma total shareholders' deficit of AAB Group as at 31 December 2023 is RM3,882.69 million.

The shareholders' deficit and the effects of the Vendor's Pre-Completion Restructuring have been considered in determining the AAB Purchase Consideration. Deloitte has derived the valuation of AAB (the main operating entity within the AAB Group) using the income approach – DCF method. The income approach – DCF method, amongst others, incorporates the future cash flows arising from the operating assets and liabilities in AAB as at 31 December 2023, whereas non-operating assets and liabilities as at 31 December 2023 are adjusted against the business enterprise value in arriving at the equity value of AAB. The valuation of AAB has also included the effects from the Vendor's Pre-Completion Restructuring.

<u>Secondary valuation method (for cross-checking purposes)</u>

We noted that the 100% equity values of the AAB (as an AOC) on marketable and control basis appraised by Deloitte under the income approach – DCF method is cross-checked against the results derived based on market approach – GPCM and the outcome support the valuation range derived under the income approach – DCF method.

For illustrative purposes only, we have computed the valuation based on market approach – GPCM using the average of market multiples and data from the financial projections furnished by the management, the results as summarised below: -

	Valuation Range – AAB (RM' mil)
Equity value of AAB (as an AOC) derived based on market approach – GPCM using the average of market multiples	6,900
Equity values of AAB (as an AOC) derived based on income approach – DCF method by Deloitte	**3,721 – 4,602 (Mid-point: 4,161.50)**

Remark: -
- *"Mil" denotes million(s).*

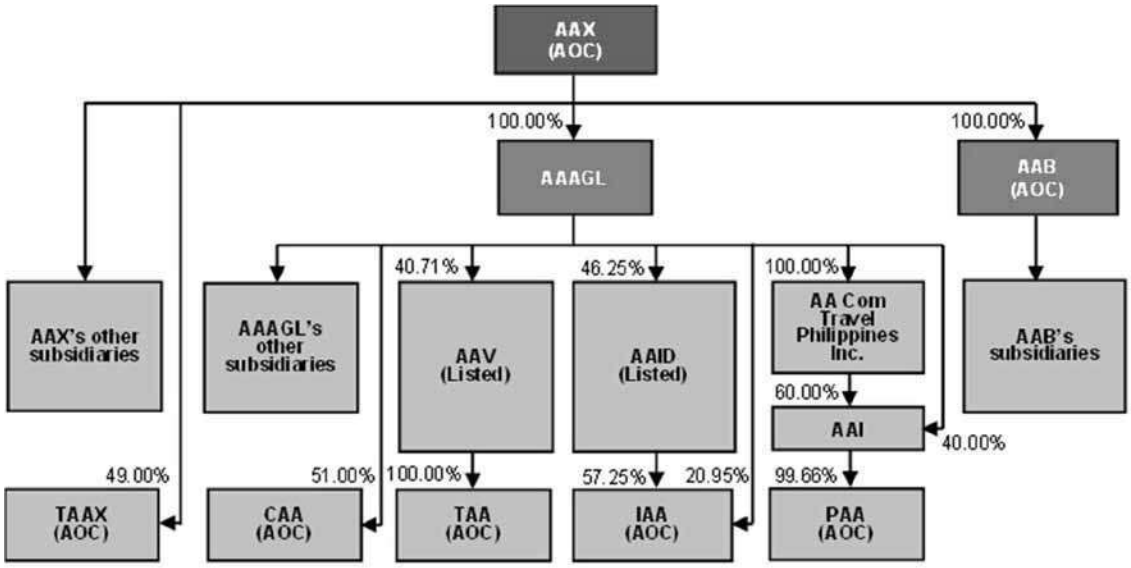
The mid-point of valuation range derived based on the income approach – DCF method is lower as compared to the valuation derived based on market approach – GPCM using the average of market multiples. We are of the view that the valuation range derived based on the income approach – DCF method (which is a more appropriate approach to reflect the future earnings capabilities of AAB) is justifiable.

<u>Impact of the issuance of bonds (details as set out in Section 10 of Appendix V of the Circular) by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, particularly on the valuation of the entire AAB Equity Interest</u>

We noted that further to the issuance of the Valuation Letter on 25 July 2024, Deloitte has evaluated the impact of issuance of the bonds (details as set out in Section 10 of Appendix V of the Circular) by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, particularly on the valuation of the entire AAB Equity Interest. Based on the Valuer's Assessment Letter as attached in Appendix VI(B) of the Circular, the range of valuation for the entire AAB Equity Interest after the issuance of the bonds is between RM3,735.00 million and RM4,563.00 million (mid-point of RM4,149.00 million), which represents a variance of less than 1% to the range of valuation as set out in the Valuation Letter. In addition, the variance represents about 1% or less to the AAB Purchase Consideration. Hence, the impact of the issuance of the bonds to the valuation of the entire AAB Equity Interest is deemed immaterial and no variation to the AAB Purchase Consideration or other terms in the AAB SSPA has been made. We are of the view that this is appropriate and reasonable, as the AAB Purchase Consideration continues to fall within the range of the valuation for the entire AAB Equity Interest after the issuance of the bonds.

(4) Group structure of the New Aviation Group

We noted that upon completion of the Proposed Acquisitions, the New Aviation Group will house all the airline entities operating under the "AirAsia" brand (including "AirAsia X" brand) and the aviation-related businesses currently undertaken by AAX Group, AAAGL Group and AAB Group. There will be 7 airlines operating under the enlarged aviation group, namely (1) 'Malaysia AirAsia' operated by AAB, (2) 'Thai AirAsia' operated by TAA, (3) 'Philippines AirAsia' operated by PAA, (4) 'Indonesia AirAsia' operated by IAA, (5) 'AirAsia Cambodia' operated by CAA, (6) 'AirAsia X' operated by AAX and (7) 'Thai AirAsia X' operated by TAAX.



Further information on the changes in corporate structure of the Group is set out in Appendix I of the Circular.

Premised on the above, we are of the view that: -

(i) income approach – DCF method as the primary approach of valuation for the AOCs (namely, TAA, PAA, IAA and AAB) is fair and reasonable, as this valuation method gives due consideration to the income-producing ability of the AOCs, which is the critical element affecting value of the AOCs; and

(ii) adjusted book value approach as the primary approach of valuation for the holding companies is fair and reasonable, as the book values of the respective holding companies have been adjusted to reflect the uplift in investment values arising from the difference between the fair values of the AOCs (appraised using the income approach – DCF method) and the current book values of the investment in the AOCs held by the respective holding companies. As such, the adjusted book value is considered an appropriate indication/approximation of the fair values of the holding companies, being investment-holding in nature without significant and distinctive income-producing ability; and

(iii) the AAAGL Purchase Consideration and AAB Purchase Consideration are <u>fair</u> and <u>reasonable</u>, taking into consideration the following: -

(i) rationale and benefits of the Proposed Acquisitions as set out in Section 8.3, Part A of the Circular;

(ii) outlook of the aviation industry and prospects of the Target Companies and the New Aviation Group as set out in Section 9, Part A of the Circular;

(iii) the AAAGL Purchase Consideration (RM3,000.00 million) falls within the range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at the valuation date of 31 December 2023, whilst the AAB Purchase Consideration (RM3,800.00 million) falls within the range of valuation for the entire AAB Equity Interest of between RM3,721.00 million and RM4,602.00 million as at the valuation date of 31 December 2023, based on the valuation undertaken by Deloitte as set out in the Valuation Letter attached in Appendix VI(A) of the Circular; and

(iv) the AAAGL Purchase Consideration (RM3,000.00 million) represents a discount of approximately RM285.50 million or 8.69% to the mid-point of the valuation range for AAAGL (being RM3,285.50 million), whilst the AAB Purchase Consideration (RM3,800.00 million) represents a discount of approximately RM361.50 million or 8.69% to the mid-point of the valuation range for AAB (being RM4,161.50 million); and the Total Purchase Consideration (RM6,800.00 million) represents a discount of approximately RM647.00 million or 8.69% to the aggregate of the mid-point of the valuation range for AAAGL and AAB (being RM7,447.00 million).

7.3 Evaluation of the modes of settlement for the Proposed Acquisitions and issue price of the Consideration Shares for the Proposed AAAGL Acquisition

We noted the following mode of settlement for the Proposed Acquisitions: -

(i) the AAAGL Purchase Consideration (RM3,000.00 million) for the Proposed AAAGL Acquisition is to be satisfied entirely via the allotment and issuance of 2,307,692,307 new Shares at an issue price of RM1.30 each, as set out in Section 4, Part A of the Circular; and

(ii) the AAB Purchase Consideration (RM3,800.00 million) for the Proposed AAB Acquisition is to be satisfied entirely via the Debt Settlement (namely, the assumption by AAX of an amount of RM3,800.00 million owing by Capital A to AAB), as set out in Section 5, Part A of the Circular.

WYNCORP's comments
We take cognisance that the Proposed Acquisitions do not involve any immediate cash outflows. We are of the view that: - (i) the issuance of Consideration Shares to satisfy the AAAGL Purchase Consideration and the Debt Settlement to satisfy the AAB Purchase Consideration would enable the Company to conserve its cash reserves for working capital and operational needs; (ii) the issuance of Consideration Shares to satisfy the AAAGL Purchase Consideration would help to enhance the Company's capital base; and (iii) the Debt Settlement to satisfy the AAB Purchase Consideration would help to clear off the outstanding amount owing by Capital A to AAB, which is necessary as upon completion of the Proposed AAB Acquisition, AAB will cease to be a wholly-owned subsidiary of Capital A and if such amount owing by Capital A to AAB shall persist, it would give rise to a "related party transaction" tantamount to provision of financial assistance and separate shareholders' approval may be required. Premised on the above, we are of the view that the mode of settlement for the Proposed Acquisition is fair and reasonable and not detrimental to the interest of the non-interested Shareholders of AAX.

We noted in Section 4.4, Part A of the Circular that the issue price of RM1.30 per Consideration Share for the AAAGL Purchase Consideration was determined after taking into consideration the 5-day VWAP of AAX Shares up to and including 15 April 2024, being the latest practicable date used to finalise the negotiation on the issue price of the Consideration Shares prior to the date of signing of the SSPAs and the announcement of the Proposals (including the Proposed Acquisitions) ("**Announcement LPD**").

In arriving at the issue price of the Consideration Shares for AAAGL Purchase Consideration, the Company had taken into consideration the following: -

(i) the issue price of RM1.30 per Consideration Share: -

   (a) is equivalent to the closing market price of AAX Shares as at the Announcement LPD;

   (b) is equivalent to the 5-day VWAP of AAX Shares up to and including the Announcement LPD; and

   (c) represents a premium of approximately 348.28% over the unaudited consolidated NA of AAX Group as at FYE 31 December 2023 of RM0.29 per AAX Share; and

(ii) the issuance of the Consideration Shares to fully satisfy the AAAGL Purchase Consideration allows AAX Group to conserve cash for working capital requirements.

We noted that the issue price of the Consideration Shares represents a premium of approximately 4.84% over the closing market price of AAX Shares as at 24 April 2024, being the last trading day prior to the date of the AAAGL SSPA ("**LTD**") of RM1.24, a premium of approximately 7.44% over the 5-day VWAP of AAX Shares up to and including the LTD of RM1.21 and a premium of 400.00% over the audited consolidated NA of AAX Group as at 31 December 2023 of RM0.26 per Share.

In assessing the fairness and reasonableness of the issue price of RM1.30 per Consideration Share for the AAAGL Purchase Consideration, we have compared the issue price against: -

(i) the closing market price of AAX Shares on the LTD and the respective VWAP as set out in the table below: -

Basis of Comparison	**Closing market price / VWAP**	**Premium / (Discount) over closing market price / VWAP**	
	RM	**RM**	**%**
Closing market price on the LTD	1.24	0.06	4.84
VWAP for 5-day up to LTD	1.21	0.09	7.44
VWAP for 1-month up to LTD	1.28	0.02	1.56
VWAP for 3-month up to LTD	1.47	(0.17)	(11.56)
VWAP for 6-month up to LTD	1.78	(0.48)	(26.97)
VWAP for 12-month up to LTD	1.98	(0.68)	(34.34)

(Source: Bloomberg)

(ii) the monthly highest and lowest transacted market prices of AAX Shares for the past 12 months from the LTD as set out in the table below: -

	Highest RM	**Lowest RM**	**Price Gap (Highest - Lowest)[(1)] %**
2023			
May	2.15	1.35	37.21
June	1.94	1.66	14.43
July	2.53	1.55	38.74
August	2.63	2.05	22.05
September	2.58	2.13	17.44
October	2.48	1.79	27.82
November	2.42	1.89	21.90
December	2.06	1.85	10.19
2024			
January	2.06	1.66	19.42
February	1.87	1.63	12.83
March	1.64	1.28	21.95
April	1.37	1.15	16.06

(Source: Bloomberg)

Note: -

(1) Calculated based on the formula: -

$$\frac{\text{(Highest transacted market price - Lowest transacted market price}}{\text{Highest transacted market price}} \times 100$$

(iii) The basis for the issue price of the Placement Shares to be issued pursuant to the Proposed Private Placement (of which the Proposed AAAGL Acquisition and the Proposed AAB Acquisition are individually conditional upon and not vice versa), where Placement Shares will be issued based on a discount of not more than 15% to the 5-day VWAP of AAX Shares up to and including the last trading day prior to the price-fixing date of the Placement Shares subject to a minimum price of RM1.00 per Placement Share.

WYNCORP's comments
We observed that: - (i) the issue price of RM1.30 per Consideration Share is at a premium to the closing market price on the LTD and the VWAPs for 5-day and 1-month up to the LTD, but at a discount to the VWAPs for 3-month, 6-month and 12-month up to the LTD; (ii) the highest and lowest transacted market prices of AAX Shares for the past 12 months from the LTD stood at RM2.63 and RM1.15 respectively, with relatively notable gap between the monthly highest transacted market price and lowest transacted market price; and the issue price of RM1.30 per Consideration Share falls within the range of the highest and lowest transacted market prices of AAX Shares for the past 12 months; (iii) the issue price of RM1.30 per Consideration Share is at a premium 400.00% over the audited consolidated NA of AAX Group for the FYE 31 December 2023 of RM0.26 per Share; and (iv) the basis for the issue price of RM1.30 per Consideration Share based on the 5-day VWAP is: - o a commonly-applied basis, particularly for issuance of new shares under a general mandate as permissible under the Listing Requirements; and o consistent with the basis for the issue price of the Placement Shares to be issued pursuant to the Proposed Private Placement (of which the Proposed AAAGL Acquisition and the Proposed AAB Acquisition are individually conditional upon and not vice versa), but without a discount.

Premised on the above, we are of the view that the modes of settlement for the Proposed Acquisitions and issue price of the Consideration Shares for the Proposed AAAGL Acquisition is fair and reasonable and not detrimental to the interest of the non-interested Shareholders of AAX.

7.4 Salient terms of the SSPAs and the supplemental agreements to the SSPAs

The salient terms of the SSPAs (amended where applicable by the supplemental agreements to the SSPAs) are set out in Appendix II(A) (in relation to the AAAGL SSPA) and Appendix II(B) (in relation to the AAB SSPA) of the Circular.

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
1.	**<u>Sale and purchase of the AAAGL Equity Interest</u>** *"On and subject to the terms of the AAAGL SSPA, the Vendor agrees to sell, and the Purchaser agrees to purchase the entire equity interest (including any forms of capital contribution and any unissued capital) in AAAGL.* *The entire AAAGL Equity Interest shall be sold by the Vendor free from encumbrances and together with all rights and advantages attaching to them as at completion of the Proposed AAAGL Acquisition (including the right to receive all dividends and distributions declared, made or paid on or after the said completion)."*	We are of the view that this term is common and reasonable.
2.	**<u>AAAGL Purchase Consideration</u>** *"The consideration for the sale and purchase of the entire AAAGL Equity Interest under the AAAGL SSPA shall be RM3,000,000,000 which is to be satisfied fully by the allotment and issuance of 2,307,692,307 Consideration Shares at an issue price of RM1.30 per Consideration Share.* *The Consideration Shares shall, upon allotment and issuance, rank equally in all respects with each other and with the then existing Shares, save and except that the holder of the Consideration Shares shall not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to our Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the Consideration Shares."*	Premised on our view as set out in Sections 7.2 and 7.3 of this IAL, we are of the view that the AAAGL Purchase Consideration and issue price of RM1.30 per Consideration Share are fair and reasonable.
3.	**<u>AAAGL Conditions Precedent</u>** *"3.1 The obligations of the parties to the AAAGL SSPA to consummate the transactions contemplated by the AAAGL SSPA are subject to the satisfaction or fulfilment, or mutual written waiver, on or before the AAAGL Cut-Off Date (as defined below), of each of the following conditions precedent (collectively, the "**AAAGL Conditions Precedent**"): -*	We are of the view that the terms are common and justifiable for transaction of such nature, as these terms set out the requirement for the parties to procure all the necessary approvals for the completion of the Proposed AAAGL Acquisition. This is crucial to ensure a smooth and successful implementation of the Proposed AAAGL Acquisition.

No.	Salient terms of the SSPAs	WYNCORP's comments
	Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)	
	(i) the approval of the shareholders of the Vendor being obtained at an EGM to be convened for the Proposed Distribution by Capital A and Proposed AAAGL Acquisition; *(ii) the approval of the holders of the Capital A RCUIDS being obtained for the Proposed Distribution by Capital A and Proposed AAAGL Acquisition;* *(iii) the approval / consent of the governmental entity, financiers / lenders or any third party, as may be necessary, being obtained by (where applicable) the Vendor, the Vendor's subsidiaries or the relevant entity within the AAAGL Group for the Vendor's Pre-Completion Restructuring, Proposed Distribution by Capital A and Proposed AAAGL Acquisition as set out below: -* *(a) (1) (A) agreement between the parties to the AAAGL SSPA after consultation with the MAVCOM or the CAAM or any successor thereof (as the case may be) or (B) the confirmation or concurrence of MAVCOM or CAAM or any successor thereof (as the case may be), that Section 54(1) of the MAVCOM Act[(1)] or Section 36T(1) of the CAAM Act[(2)] (as the case may be) is not applicable to the Proposed AAAGL Acquisition; or* *(2) a decision is issued by MAVCOM or CAAM or any successor thereof (as the case may be) that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not infringed if the Proposed AAAGL Acquisition is carried into effect;* *<u>Notes: -</u>* *(1) Section 54(1) of the MAVCOM Act provides that mergers that have resulted, or may be expected to result, in a substantial lessening of competition in any aviation service market are prohibited.* *(2) Pursuant to Section 15 of the Civil Aviation Authority of Malaysia (Amendment) Act 2024, the CAAM Act will be amended by, amongst others, inserting a new Section 36T which provides that mergers that have resulted, or may be expected to result, in a substantial lessening of competition in any aviation service market are prohibited. For information purposes, the aforesaid amendment of the CAAM Act has yet to come into force as at the LPD.*	We wish to draw the attention to the following clauses: - (i) Clause 3.1 (vi), which sets out that AAAGL Group collectively shall not incur or record an aggregate loss exceeding RM50,000,000 during the 3-month period immediately preceding the date of completion of the Proposed AAAGL Acquisition. We are of the view that this condition precedent is justifiable, as it would serve as a mitigating measure to the "risk of triggering PN17" as elaborated in Section 10.5, Part A of the Circular. (ii) Clause 3.1 (x), which sets out that AAX shall raise RM1,000,000,000 within the financial year ending 31 December 2024, pursuant to the placement letter(s) or commitment letter(s) or agreement(s) (as the case may be) executed by the Purchaser and the identified investors in relation to the Proposed Private Placement. We are of the view that this condition precedent is justifiable, as the Proposed AAAGL Acquisition is conditional upon the Proposed Private Placement, and the Proposed Private Placement would serve as a mitigating measure to the "risk of triggering PN17" and "financing and default risk" as elaborated in Sections 10.5 and 10.7, Part A of the Circular.

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	(b) Bank Negara Malaysia, Foreign Exchange Administration with regards to the AAAGL Debt Novation; *(c) financiers / lenders in respect of the Capital A RCUIDS as well as banking facilities granted to certain subsidiaries of Capital A;* *(d) third parties in respect of certain aircraft lease as well as operational agreements;* *(e) any other approvals, waivers or consents of and/or notifications to any authorities or parties as may be required by law or regulation or deemed necessary and mutually agreed by the parties to the AAAGL SSPA; and* *(f) the approvals and/or consents of lenders / financiers of the relevant entity within the AAAGL Group for the release and/or discharge of any corporate guarantee and/or security provided by the Vendor or its group of companies (excluding the AAAGL Group) in favour of lenders / financiers of the relevant entity within the AAAGL Group shall be obtained before the date of completion of the Proposed AAAGL Acquisition. For the avoidance of doubt, Capital A and AAX agree that they shall not be entitled to waive this condition precedent.* *(iv) the completion of the Vendor's Pre-Completion Restructuring;* *(v) the sanction of the High Court being obtained for the capital reduction pursuant to the Proposed Distribution by Capital A;* *(vi) the AAAGL Group collectively does not incur or record an aggregate loss exceeding RM50,000,000(1) during the 3-month period immediately preceding the date of completion of the Proposed AAAGL Acquisition;* *Note: -* *(1) Together with the conditions precedent in the AAB SSPA, the AAAGL Group and AAB Group shall not incur or record an aggregate loss exceeding RM100.00 million during the 3-month period immediately preceding the dates of completion of the Proposed Acquisitions. The amount of RM100.00 million is determined based on*	

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	<u>*10% of the total gross proceeds of RM1,000.00 million to be raised from the Proposed Private Placement.*</u> *(vii) the completion of the due diligence exercise comprising examination and verification of the financial, legal and other affairs of the AAAGL Group by accountants, valuers, solicitors or such other professionals (if required) and the results of the due diligence exercise being reasonably satisfactory to the Purchaser;* *(viii) your approval being obtained at an EGM to be convened for the Proposed AAAGL Acquisition;* *(ix) the approval / consent of the governmental entity, financiers / lenders or any third party, as may be necessary, being obtained by (where applicable) the Purchaser, or any of the Purchaser's subsidiaries for the Proposed AAAGL Acquisition as set out below: -* *(a) (1) (A) agreement between the parties to the AAAGL SSPA after consultation with the MAVCOM or the CAAM or any successor thereof (as the case may be) or (B) the confirmation or concurrence of MAVCOM or CAAM or any successor thereof (as the case may be), that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not applicable to the Proposed AAAGL Acquisition; or* *(2) a decision is issued by MAVCOM or CAAM or any successor thereof (as the case may be) that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not infringed if the Proposed AAAGL Acquisition is carried into effect; where applicable* *(b) Takeover Panel of Securities and Exchange Commission, Thailand in respect of the proposed exemption under the applicable takeover rules in Thailand to be sought by the Purchaser from the obligation to undertake a tender offer to acquire all remaining shares in AAV not already owned by the Purchaser on completion of the Proposed AAAGL Acquisition;*	

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	(c) Bursa Securities for the listing and quotation of the Consideration Shares and Placement Shares on the Main Market of Bursa Securities; and *(d) any other approvals, waivers or consents of and/or notifications to any authorities or parties as may be required by law or regulation or deemed necessary and mutually agreed by the parties to the AAAGL SSPA; and* *(x) the Purchaser raising RM1,000,000,000 within the financial year ending 31 December 2024, pursuant to the placement letter(s) or commitment letter(s) or agreement(s) (as the case may be) executed by the Purchaser and the identified investors in relation to the Proposed Private Placement.* *"**AAAGL Cut-Off Date**" means –* *(i) 6 months after the date of the AAAGL SSPA for the AAAGL Conditions Precedent (save for AAAGL Condition Precedent referred to in paragraph 3.1(vii) above); and* *(ii) for the AAAGL Condition Precedent referred to in paragraph 3.1(vii) above, 60 days after the date of the AAAGL SSPA with an automatic extension for a further period of 60 days,* *or such other date as mutually agreed between the parties to the AAAGL SSPA in writing.* *3.2 If the AAAGL Conditions Precedent are not satisfied or waived on or before 5:00 p.m. on the AAAGL Cut-Off Date, the parties to the AAAGL SSPA may, acting reasonably and by mutual agreement in writing extend the AAAGL Cut-Off Date or failing agreement to extend, the AAAGL SSPA (other than the surviving provisions as stipulated in the AAAGL SSPA) shall lapse and consequently each party to the AAAGL SSPA shall have no claim against the other party, save for a claim arising out of antecedent breaches of the AAAGL SSPA.* *3.3 Between the date of the AAAGL SSPA and completion of the Proposed AAAGL Acquisition, and except for the Proposed AAAGL Acquisition, Proposed Issuance of Free Warrants, Proposed Private Placement and Proposed Granting of Subscription Options, the Purchaser agrees that unless the prior written approval of the Vendor has been obtained, it shall not seek and/or obtain its shareholders' approval for the Purchaser to undertake any corporate exercise or approve any proposed amendment(s) to any existing corporate exercise(s) which has the effect of increasing or enlarging the number of shares of the Purchaser, including,*	

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	without limitation, any issue of shares or other securities convertible into shares or securities with rights to acquire or subscribe for shares or other securities in consideration or part consideration for or in connection with the acquisition of any securities, assets or business, failing which, the Vendor may terminate the AAAGL SSPA (other than the surviving provisions as stipulated in the AAAGL SSPA) at any time prior to completion of the Proposed AAAGL Acquisition with the Vendor's interest in the AAAGL Equity Interest intact."	
4.	**<u>Completion of the Proposed AAAGL Acquisition</u>** *"4.1 Completion of the sale and purchase of the entire AAAGL Equity Interest under the AAAGL SSPA shall take place 1 month following the date on or by which all AAAGL Conditions Precedent have been satisfied, fulfilled and/or waived other than those AAAGL Conditions Precedent that by their nature are to be satisfied at completion of the Proposed AAAGL Acquisition (and have been satisfied, fulfilled and/or waived at completion of the Proposed AAAGL Acquisition) or at such other time as the parties to the AAAGL SSPA may mutually agree in writing.* *4.2 If any provision of the completion clause under the AAAGL SSPA is not fully complied with, the Purchaser, in the case of a default or non-compliance by the Vendor, or the Vendor, in the case of a default or non-compliance by the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available to it): -* *(i) to effect completion of the Proposed AAAGL Acquisition so far as practicable having regard to the defaults which have occurred; or* *(ii) to fix a new date for completion of the Proposed AAAGL Acquisition not being later than 1 month after the intended date of completion of the Proposed AAAGL Acquisition, on the basis that such deferral may only occur once; or* *(iii) to terminate the AAAGL SSPA (other than the surviving provisions as stipulated in the AAAGL SSPA and save in respect of rights arising out of any antecedent breach of the AAAGL SSPA including with respect to a breach of the relevant completion obligations) without liability on the part of the non-defaulting party with the Vendor's interest in the entire AAAGL Equity Interest intact.* *4.3 Notwithstanding the above, each party to the AAAGL SSPA shall be at liberty to take such action in law as may be necessary to compel the other party by way of specific performance*	We are of the view that the terms are common for transaction of such nature and justifiable, as these terms prescribe a timeframe for the completion of the Proposed AAAGL Acquisition and set out the rights of the non-defaulting party in the event of a default / breach.

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	to complete the transaction contemplated in the AAAGL SSPA (in which respect the alternative remedy of monetary compensation shall not be regarded as compensation or sufficient compensation for any default of a party in the performance of the terms and conditions in the AAAGL SSPA) or to claim damages for the breach of the other party."	
5.	**<u>Right to claim for breach of warranties</u>** *"Each party to the AAAGL SSPA has a right to claim for breach of warranties by the other party only following and subject to completion of the Proposed AAAGL Acquisition. In the event the said completion does not occur and the AAAGL SSPA is terminated, the non-defaulting party shall not be able to claim against the defaulting party for breach of warranties save for antecedent breaches under the AAAGL SSPA.* *Nevertheless, the non-defaulting party has the right to terminate the AAAGL SSPA at any time prior to the completion of the Proposed AAAGL Acquisition in any of the following events: -* *(i) the non-defaulting party becomes aware that any of the defaulting party's warranties was untrue or inaccurate; or* *(ii) any inconsistency with the warranties given by the defaulting party is discovered; and/or* *(iii) an AAAGL Material Adverse Change[(1)] has occurred; or* *(iv) any other breach on the part of the defaulting party of the terms of the AAAGL SSPA occurring.* *<u>Note: -</u>* *(1) An "**AAAGL Material Adverse Change**" means any occurrence, condition, change, event or effect that is materially adverse to the AAAGL Group or our Company and our subsidiaries (as the case may be), taken as a whole, which results in an impact on the financial position or profit / loss after tax of the group of RM65,000,000 or more, provided that none of the following constitutes an AAAGL Material Adverse Change: -* *(i) any occurrence, condition, change, event or effect resulting from or relating to changes in general economic conditions or financial market conditions (whether relating to equity, debt or currencies);*	We are of the view that the terms are common and justifiable, as these terms set out the rights of the non-defaulting party in the event of breach of warranties. This is crucial, as the parties have entered into the transaction subject to, and after taking into consideration, the warranties provided. We wish to draw the attention to the AAAGL Material Adverse Change. This term is justifiable, as it provides assurance to both parties that there are no instances of material adverse change (in this context, those exceeding the prescribed threshold of RM65.00 million) remained unnotified to the other party, as well as safeguards the right of the non-defaulting party to claim damages or seek for remedial action in the event of a breach. We noted that a minimum threshold is being imposed and observed that the minimum threshold of RM65.00 million imposed represents approximately 2.17% of the AAAGL Purchase Consideration. Whilst such term is justifiable where it serves to confine the right to claim to situation where an adverse change that is material relative to the size of the transaction has occurred, which is crucial to enable a smooth and successful implementation of the Proposed AAAGL Acquisition; we would like to highlight that the imposition of a minimum threshold would have a restrictive effect on the

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	(ii) the occurrence of any natural disasters, pandemics and acts of terrorism, except in the event, and only to the extent, of any damage or destruction to or loss of the physical properties of the AAAGL Group or our Company and our subsidiaries (as the case may be); *(iii) any occurrence, condition, change, event or effect resulting from or relating to: -* *(a) the announcement or pendency of the proposed sale and/or purchase of the entire AAAGL Equity Interest (whichever applicable);* *(b) compliance by any party to the AAAGL SSPA with the terms of the AAAGL SSPA; and* *(c) actions made by any party to the AAAGL SSPA which are expressly contemplated and permitted by the AAAGL SSPA, or if not so permitted, otherwise consented to by the Vendor and the Purchaser in writing; and* *(iv) any change in laws, regulations, rules or administrative practices of any governmental entity, including a change in tax regime or treatment or the introduction of currency controls which have an effect on the AAAGL Group or our Company and our subsidiaries (as the case may be) or the contemplated transaction.*	non-defaulting party, whereby the non-defaulting party would have to absorb the losses/damages in the event of such adverse change falls below the prescribed threshold.
6.	**<u>Indemnities</u>** *"The Vendor shall not be liable in respect of a specific indemnity claim (with regards to identified matters in the AAAGL SSPA relating to the conduct of the AAAGL Group's business prior to completion of the Proposed AAAGL Acquisition and any other specific indemnities as may be mutually agreed upon completion of the due diligence exercise on the AAAGL Group by the Purchaser) if it does not exceed RM5,000,000 and in respect of a special claim (with regards to ongoing litigation proceedings on taxation involving AirAsia (India) Limited) if it does not exceed RM65,000,000. Where the liability exceeds such thresholds, the Vendor shall be liable for the whole amount and not merely the excess over the thresholds. A notice of the specific indemnity claim or the special claim (as the case may be) shall be given by the Purchaser to the Vendor within 24 months following the completion of the Proposed AAAGL Acquisition.* *The Vendor will indemnify the Purchaser and hold the Purchaser and AAAGL Group harmless against: -* *(i) any taxation amount (whether or not already assessed or imposed or which may from time to time be assessed or imposed by the relevant governmental authority on the AAAGL Group*	We are of the view that these terms are common and justifiable, as it serves to safeguard the Company from incurring losses arising from any identified / known ongoing litigation claims or dispute resolution proceedings. We noted that minimum thresholds are being imposed and observed that: - o for special indemnity claim – the prescribed minimum threshold of RM5.00 million represents approximately 0.17% of the AAAGL Purchase Consideration; and o for special claim – the prescribed minimum threshold of RM65.00 million represents

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	after completion of the Proposed AAAGL Acquisition) in respect of taxation liabilities of any entities within the AAAGL Group for the period up to the date of completion of the Proposed AAAGL Acquisition, except insofar as full provision is made for such liabilities in the accounts of any entities within the AAAGL Group; *(ii) any claim for income tax in respect of any dividend paid or any distribution made by any entities within the AAAGL Group before the date of completion of the Proposed AAAGL Acquisition, except insofar as full provision is made for such liabilities in the accounts of any entities within the AAAGL Group;* *(iii) any settlement of any actual or threatened claim, demand, direction, apportionment, assessment, recovery or counter-claim of any entities within the AAAGL Group in respect of taxation liabilities of any entities within the AAAGL Group for the period up to the date of completion of the Proposed AAAGL Acquisition;* *(iv) any amount recovered against any entities within the AAAGL Group in respect of the taxation liabilities of any entities within the AAAGL Group for the period up to the date of completion of the Proposed AAAGL Acquisition; and* *(v) any costs reasonably incurred by any entities within the AAAGL Group in contesting or settling any claim, demand, direction, apportionment, assessment, recovery or counter-claim as aforesaid, whether threatened or made, in respect of taxation liabilities of any entities within the AAAGL Group for the period up to the date of completion of the Proposed AAAGL Acquisition."*	approximately 2.17% of the AAAGL Purchase Consideration. Whilst such terms are justifiable where they serve to confine the right to indemnity claim to situation where a breach deemed material relative to the size of the transaction has occurred, which is crucial to enable a smooth and successful implementation of the Proposed AAAGL Acquisition; we would like to highlight that the imposition of a minimum threshold would have a restrictive effect on the non-defaulting party, whereby the non-defaulting party would have to absorb the losses/damages in the event of such specific indemnity claim or special claim falls below the prescribed threshold.
7.	**<u>Limitation of liability in respect of breach of warranties</u>** *"7.1 Either party to the AAAGL SSPA shall not have liability in respect of any claims arising from the breach of its warranties ("**AAAGL Claim**") to the extent that the facts, matter or circumstances giving rise to the AAAGL Claim are disclosed in its disclosure letter and the AAAGL SSPA.* *7.2 **Time limitation**: Either party to the AAAGL SSPA shall not be liable under the AAAGL SSPA in respect of any AAAGL Claim unless a notice of the AAAGL Claim is given by the other party: -*	We are of the view that these terms and common and justifiable, as these terms clarify the timeframe for liability in respect of breach of warranties as well as situation and quantum upon which liability in respect of breach of warranties may be claimed. We noted that minimum thresholds are being imposed and observed that: - o a minimum threshold of 0.1% of the AAAGL Purchase Consideration or RM3.00 million

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	(i) in the case of any AAAGL Claim relating to tax matters, within the applicable limitation period as stipulated under the relevant laws relating to taxation; *(ii) in the case of any AAAGL Claim relating to the fundamental warranties (as identified in the AAAGL SSPA), within 6 years following completion of the Proposed AAAGL Acquisition; or* *(iii) in the case of any other AAAGL Claim, within 24 months following completion of the Proposed AAAGL Acquisition.*	is being imposed for claims, subject to the aggregate minimum claims; and ○ a minimum threshold of 1.0% of the AAAGL Purchase Consideration or RM30.00 million is being imposed for aggregate minimum claims. Whilst such terms are justifiable, as they allow for ease of handling and monitoring by reducing the hassles in attending to smaller claim(s) the amount of which could be deemed immaterial or insignificant relative to the size of the transaction, we would like to highlight that the imposition of a minimum threshold would have a restrictive effect on the non-defaulting party, whereby the non-defaulting party would have to absorb the losses/damages in the event of such claim falls below the prescribed minimum threshold.
7.3	***Minimum claims**: Subject to aggregate minimum claims in Section 7.4 of this Appendix II(A), either party to the AAAGL SSPA shall not be liable in respect of an AAAGL Claim under the AAAGL SSPA in respect of any individual AAAGL Claim (provided that AAAGL Claims in respect of similar facts and circumstances may be aggregated for this purpose) where the liability in respect of any such AAAGL Claim does not exceed 0.1%[(1)] of the AAAGL Purchase Consideration (i.e. RM3,000,000). Where the liability exceeds such threshold, the defaulting party shall be liable for the whole amount and not merely the excess over the said threshold.* *Note: -* *(1) The threshold of 0.1% was arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.*	We further noted that capping is being imposed on maximum liability and observed that: - ○ a capping of 100% of the AAAGL Purchase Consideration (i.e. RM3,000.00 million) in the case of any AAAGL Claim relating to the fundamental warranties (as identified in the AAAGL SSPA); and ○ a capping of 25% of the AAAGL Purchase Consideration (i.e. RM750.00 million) in the case of any other AAAGL Claim. Whilst such terms are justifiable, taking into consideration warranties have been provided and the completion of the Proposed AAAGL
7.4	***Aggregate minimum claims**: Either party to the AAAGL SSPA shall not be liable under the AAAGL SSPA in respect of any AAAGL Claim (excluding AAAGL Claim for which liability is excluded under Section 7.3 of this Appendix II(A)) unless and until the aggregate amount of all such AAAGL Claims exceeds 1%[(1)] of the AAAGL Purchase Consideration (i.e. RM30,000,000). Where the liability exceeds such threshold, the defaulting party shall be liable for the whole amount and not just the excess over the said threshold.* *Note: -* *(1) The threshold of 1% was arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.*	
7.5	***Maximum liability**: The aggregate liability of either party to the AAAGL SSPA in respect of all AAAGL Claims under the AAAGL SSPA shall not exceed: -*	

No.	Salient terms of the SSPAs	WYNCORP's comments
	Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)	
	(i) 100%[(1)] of the AAAGL Purchase Consideration (i.e. RM3,000,000,000) in the case of any AAAGL Claim relating to the fundamental warranties (as identified in the AAAGL SSPA); and *(ii) 25%[(1)] of the AAAGL Purchase Consideration (i.e. RM750,000,000) in the case of any other AAAGL Claim.* *Note: -* *(1) The thresholds of 100% and 25% were arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.* *7.6 None of the limitations above shall apply to any AAAGL Claim which arises or is increased or is delayed as the consequence of fraud or wilful concealment by either party to the AAAGL SSPA or any of its directors, officers, employees, agents, advisers, representatives or successors in title of such party."*	Acquisition is subject to conditions precedent for the completion of the due diligence exercise comprising examination and verification of the financial, legal and other affairs of the AAAGL Group by accountants, valuers, solicitors or such other professionals (if required) and the results of the due diligence exercise being reasonably satisfactory to the Company, we would like to highlight that the imposition of a capping on the maximum liability (particularly the capping of 25% of the AAAGL Purchase Consideration i.e. RM750.00 million imposed for any other AAAGL Claim) would have a restrictive effect on the non-defaulting party, whereby the non-defaulting party would have to absorb the losses/damages in the event of such claim goes beyond the prescribed capping on the maximum liability. Notwithstanding that, we noted that the limitation of liability would not apply to any AAAGL Claim which arises or is increased or is delayed as the consequence of fraud or wilful concealment by either party to the AAAGL SSPA or any of its directors, officers, employees, agents, advisers, representatives or successors in title of such party. This safeguards the right to claim damages of the non-defaulting party, regardless of materiality of the sum, in the event of fraud and wilful concealment.
8.	**Non-competition and protective covenants** *"The Vendor undertakes that it will not, and will procure that Capital A and its subsidiaries ("**Vendor Group**") will not during the period commencing on the date of completion of the Proposed AAAGL*	We are of the view that this term is common and justifiable, as it serves to protect AAX and the enlarged aviation group (upon completion of the Proposed AAAGL Acquisition) from unwanted competition from Capital A and its

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAAGL SSPA (as set out in Appendix II(A) of the Circular)		
	Acquisition and ending on the date falling 5 years after the completion of the Proposed AAAGL Acquisition: - *(i) carry on in, be engaged in, or hold a substantial shareholding or equity interest (save for the equity interest held in the Purchaser) in, either directly or indirectly, in any capacity, in any trade, business or occupation, or in any manner take part in or lend its name, counsel or assistance to any person in any capacity whatsoever, for any purpose, in any other business or activity which is same or similar to or competing with the AAAGL Prohibited Business[(1)];* *(ii) canvass, solicit, entice away, induce or encourage any employee or consultant or customer, the custom of the AAAGL Group and/or their affiliates to curtail, terminate or cease their employment or affiliation or custom / business with the AAAGL Group; and* *(iii) be engaged in any act which is premeditated or in preparation or in readiness to effect or put in place any of the matters set out in paragraphs 8(i) and 8(ii) above;* *provided that (i) the covenants under this paragraph 8 shall only take effect following and subject to completion of the Proposed AAAGL Acquisition and (ii) the covenants under this paragraph 8 shall not apply in respect of any member within the Vendor Group which is involved in the AAAGL Prohibited Business[(1)] as at the date of the AAAGL SSPA. In this respect, the Vendor represents, warrants and confirms that the only entities within the Vendor Group which are involved in the AAAGL Prohibited Business[(1)] (other than the AAAGL Group) are the AAB Group.* *Note: -* *(1) "**AAAGL Prohibited Business**" means the current aviation business operations of the Purchaser and the AAAGL Group, which is the provision of domestic or international air transportation services which includes the medium to long-haul flights, short-haul flights and commercial flights, but excluding any existing business operations of the Vendor Group provided that the Vendor Group does not include the AAAGL Group.*	subsidiaries in relation to the current aviation business operations of AAAGL Group. This is crucial as the valuation of AAAGL Group is subject to certain key underlying bases and assumptions and heavily dependent on the respective AOCs within the enlarged aviation group continue to operate as a going-concern and achieve continual and sustainable growth in terms of revenue and profitability level.

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
1.	**<u>Sale and purchase of AAB Equity Interest</u>** *"On and subject to the terms of the AAB SSPA, the Vendor agrees to sell, and the Purchaser agrees to purchase the entire equity interest (including any forms of capital contribution and any unissued capital) in AAB.* *The entire AAB Equity Interest shall be sold by the Vendor free from encumbrances (save as disclosed in the Vendor's disclosure letter in respect of the AAB SSPA[(1)]) and together with all rights and advantages attaching to them as at completion of the Proposed AAB Acquisition (including the right to receive all dividends and distributions declared, made or paid on or after the said completion).* *<u>Note: -</u>* *(1) On 21 August 2024, AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, had entered into definitive agreements with aircraft lessors and private credit funds for the issuance by AirAsia RB 1 Ltd, of Regulation S (under the US Securities Act) secured bonds of up to USD443.0 million, due September 2026 and August 2028, with AAB as a third party security provider, and both AAB and Capital A as corporate guarantors. Bank Negara Malaysia has vide its letters dated 26 March 2024 and 4 July 2024 approved the issuance of the bonds together with the proposed security under Bank Negara Malaysia's Foreign Exchange Policy. The bonds were issued on 23 August 2024.* *As part of the terms of the issuance of the bonds, there will be a first ranking share charge over 49% of the shares of AAB held by our Company upon completion of the Proposed Acquisitions.* *The salient terms of the bonds are set out in Appendix II(C) of this Circular. Further information on the bonds is set out in Section 10 of Appendix V of this Circular. "*	We are of the view that this term is common and reasonable.
2.	**<u>AAB Purchase Consideration</u>** *"The consideration for the sale and purchase of the entire AAB Equity Interest under the AAB SSPA shall be RM3,800,000,000 which is to be satisfied by the Purchaser's assumption of the amount owing by the Vendor to AAB.* *The Debt Settlement shall result in the following events occurring simultaneously: -* *(i) AAB fully releasing the Vendor from the liability for the payment of the amount owing by the Vendor to AAB of RM3,800,000,000; and*	Premised on our view as set out in Sections 7.2 and 7.3 of this IAL, we are of the view that the AAB Purchase Consideration is fair and reasonable.

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	(ii) the Purchaser fully assuming the liability for the payment of the amount owing by the Vendor to AAB of RM3,800,000,000; *by way of the issue of a promissory note from the Purchaser to AAB, which will substitute and cancel the existing promissory note issued by the Vendor to AAB".*	
3.	<u>**AAB Conditions Precedent**</u> *"3.1 The obligations of the parties to the AAB SSPA to consummate the transactions contemplated by the AAB SSPA are subject to the satisfaction or fulfilment, or mutual written waiver, on or before the AAB Cut-Off Date (as defined below), of each of the following conditions precedent (collectively, the "**AAB Conditions Precedent**"): -* *(i) the approval of the shareholders of the Vendor being obtained at an EGM to be convened for the Proposed AAB Acquisition;* *(ii) the approval of the holders of the Capital A RCUIDS being obtained for the Proposed AAB Acquisition;* *(iii) the approval / consent of the governmental entity, financiers / lenders or any third party, as may be necessary, being obtained by (where applicable) the Vendor, the Vendor's subsidiaries or the relevant entity within the AAB Group for the Vendor's Pre-Completion Restructuring and Proposed AAB Acquisition as set out below: -* *(a) MAVCOM with regards to the proposed change in shareholding of AAB;* *(b) (1) (A) agreement between the parties to the AAB SSPA after consultation with the MAVCOM or the CAAM or any successor thereof (as the case may be) or (B) the confirmation or concurrence of MAVCOM or CAAM or any successor thereof (as the case may be), that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not applicable to the Proposed AAB Acquisition; or* *(2) a decision is issued by MAVCOM or CAAM or any successor thereof (as the case may be) that Section 54(1) of the MAVCOM Act or*	We are of the view that the terms are common and justifiable for transaction of such nature, as these terms set out the requirement for the parties to procure all the necessary approvals for the completion of the Proposed AAB Acquisition. This is crucial to ensure a smooth and successful implementation of the Proposed AAB Acquisition. We wish to draw the attention to the following clauses: - (i) Clause 3.1 (v), which sets out that AAB Group collectively shall not incur or record an aggregate loss exceeding RM50,000,000 during the 3-month period immediately preceding the date of completion of the Proposed AAB Acquisition. We are of the view that this condition precedent is justifiable, as it would serve as a mitigating measure to the "risk of triggering PN17" as elaborated in Section 10.5, Part A of the Circular. (ii) Clause 3.1 (ix), which sets out that AAX shall raise RM1,000,000,000 within the financial year ending 31 December 2024, pursuant to the placement letter(s) or commitment letter(s) or agreement(s) (as

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	Section 36T(1) of the CAAM Act (as the case may be) is not infringed if the Proposed AAB Acquisition is carried into effect; *(i) Bank Negara Malaysia, Foreign Exchange Administration with regards to the AAAGL Debt Novation;* *(ii) financiers / lenders in respect of the Capital A RCUIDS as well as banking facilities granted to certain subsidiaries of Capital A;* *(iii) third parties in respect of certain aircraft lease as well as operational agreements;* *(iv) notification to third parties and financiers / lenders in respect of certain operational agreements and banking facilities;* *(v) any other approvals, waivers or consents of and/or notifications to any authorities or parties as may be required by law or regulation or deemed necessary and mutually agreed by the parties to the AAB SSPA; and* *(vi) the approvals and/or consents of lenders / financiers of the relevant entity within the AAB Group for the release and/or discharge of any corporate guarantee and/or security provided by the Vendor or its group of companies (excluding the AAB Group) in favour of lenders / financiers of the relevant entity within the AAB Group shall be obtained before the date of completion of the Proposed AAB Acquisition. For the avoidance of doubt, Capital A and AAX agree that they shall not be entitled to waive this condition precedent.* *(iv) the completion of the Vendor's Pre-Completion Restructuring;* *(v) the AAB Group collectively does not incur or record an aggregate loss exceeding RM50,000,000[(1)] during the 3-month period immediately preceding the date of completion of the Proposed AAB Acquisition;* *<u>Note: -</u>* *(1) Together with the conditions precedent in the AAAGL SSPA, the AAAGL Group and AAB Group shall not incur or record an aggregate loss exceeding RM100.00 million during the 3-month period immediately preceding the dates of completion of the*	the case may be) executed by the Purchaser and the identified investors in relation to the Proposed Private Placement. We are of the view that this condition precedent is justifiable, as the Proposed AAB Acquisition is conditional upon the Proposed Private Placement, and the Proposed Private Placement would serve as a mitigating measure to the "risk of triggering PN17" and "financing and default risk" as elaborated in Sections 10.5 and 10.7, Part A of the Circular.

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	Proposed Acquisitions. The amount of RM100.00 million is determined based on 10% of the total gross proceeds of RM1,000.00 million to be raised from the Proposed Private Placement. *(vi) the completion of the due diligence exercise comprising examination and verification of the financial, legal and other affairs of the AAB Group by accountants, valuers, solicitors or such other professionals (if required) and the results of the due diligence exercise being reasonably satisfactory to the Purchaser;* *(vii) your approval being obtained at an EGM to be convened for the Proposed AAB Acquisition;* *(viii) the approval / consent of the governmental entity, financiers / lenders or any third party, as may be necessary, being obtained by (where applicable) the Purchaser or any of the Purchaser's subsidiaries for the Proposed AAB Acquisition as set out below: -* *(a) (1) (A) agreement between the parties to the AAB SSPA after consultation with the MAVCOM or the CAAM or any successor thereof (as the case may be) or (B) the confirmation or concurrence of MAVCOM or CAAM or any successor thereof (as the case may be), that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not applicable to the Proposed AAB Acquisition; or* *(2) a decision is issued by MAVCOM or CAAM or any successor thereof (as the case may be) that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not infringed if the Proposed AAB Acquisition is carried into effect;* *(b) Bursa Securities for the listing and quotation of the Placement Shares on the Main Market of Bursa Securities; and* *(c) any other approvals, waivers or consents of and/or notifications to any authorities or parties as may be required by law or regulation or deemed necessary and mutually agreed by the parties to the AAB SSPA; and*	

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	(ix) the Purchaser raising RM1,000,000,000 within the financial year ending 31 December 2024, pursuant to the placement letter(s) or commitment letter(s) or agreement(s) (as the case may be) executed by the Purchaser and the identified investors in relation to the Proposed Private Placement. *"**AAB Cut-Off Date**" means –* *(i) 6 months after the date of the AAB SSPA for the AAB Conditions Precedent (save for AAB Condition Precedent referred to in paragraph 3.1(vi) above); and* *(ii) for the AAB Condition Precedent referred to in paragraph 3.1(vi) above, 60 days after the date of the AAB SSPA with an automatic extension for a further period of 60 days,* *or such other date as mutually agreed between the parties to the AAB SSPA in writing.* *3.2 If the AAB Conditions Precedent are not satisfied or waived on or before 5:00 p.m. on the AAB Cut-Off Date, the parties to the AAB SSPA may, acting reasonably and by mutual agreement in writing extend the AAB Cut-Off Date or failing agreement to extend, the AAB SSPA (other than the surviving provisions as stipulated in the AAB SSPA) shall lapse and consequently each party to the AAB SSPA shall have no claim against the other party, save for a claim arising out of antecedent breaches of the AAB SSPA.* *3.3 Between the date of the AAB SSPA and completion of the Proposed AAB Acquisition, and except for the Proposed AAAGL Acquisition, Proposed Issuance of Free Warrants, Proposed Private Placement and Proposed Granting of Subscription Options, the Purchaser agrees that unless the prior written approval of the Vendor has been obtained, it shall not seek and/or obtain its shareholders' approval for the Purchaser to undertake any corporate exercise or approve any proposed amendment(s) to any existing corporate exercise(s) which has the effect of increasing or enlarging the number of shares of the Purchaser, including, without limitation, any issue of shares or other securities convertible into shares or securities with rights to acquire or subscribe for shares or other securities in consideration or part consideration for or in connection with the acquisition of any securities, assets or business, failing which, the Vendor may terminate the AAB SSPA (other than the surviving provisions as stipulated in the AAB SSPA) at any time prior to completion of the Proposed AAB Acquisition with the Vendor's interest in the entire AAB Equity Interest intact."*	

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
4.	**<u>Completion of the Proposed AAB Acquisition</u>** *"4.1 Completion of the sale and purchase of the entire AAB Equity Interest under the AAB SSPA shall take place 1 month following the date on or by which all AAB Conditions Precedent have been satisfied, fulfilled and/or waived other than those AAB Conditions Precedent that by their nature are to be satisfied at completion of the Proposed AAB Acquisition (and have been satisfied, fulfilled and/or waived at completion of the Proposed AAB Acquisition) or at such other time as the parties to the AAB SSPA may mutually agree in writing.* *4.2 If any provision of the completion clause under the AAB SSPA is not fully complied with, the Purchaser, in the case of a default or non-compliance by the Vendor, or the Vendor, in the case of a default or non-compliance by the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available to it): -* *(i) to effect completion of the Proposed AAB Acquisition so far as practicable having regard to the defaults which have occurred; or* *(ii) to fix a new date for completion of the Proposed AAB Acquisition not being later than 1 month after the intended date of completion of the Proposed AAB Acquisition, on the basis that such deferral may only occur once; or* *(iii) to terminate the AAB SSPA (other than the surviving provisions as stipulated in the AAB SSPA and save in respect of rights arising out of any antecedent breach of the AAB SSPA including with respect to a breach of the relevant completion obligations) without liability on the part of the non-defaulting party with the Vendor's interest in the entire AAB Equity Interest intact.* *4.3 Notwithstanding the above, each party to the AAB SSPA shall be at liberty to take such action in law as may be necessary to compel the other party by way of specific performance to complete the transaction contemplated in the AAB SSPA (in which respect the alternative remedy of monetary compensation shall not be regarded as compensation or sufficient compensation for any default of a party in the performance of the terms and conditions in the AAB SSPA) or to claim damages for the breach of the other party."*	We are of the view that the terms are common for transaction of such nature and justifiable, as these terms prescribe a timeframe for the completion of the Proposed AAB Acquisition and set out the rights of the non-defaulting party in the event of a default / breach.
5.	***<u>Right to claim for breach of warranties</u>***	We are of the view that the terms are common and justifiable, as these terms set out the rights of the non-defaulting party in the event of

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	"Each party to the AAB SSPA has a right to claim for breach of warranties by the other party only following and subject to completion of the Proposed AAB Acquisition. In the event the said completion does not occur and the AAB SSPA is terminated, the non-defaulting party shall not be able to claim against the defaulting party for breach of warranties save for antecedent breaches under the AAB SSPA. *Nevertheless, the non-defaulting party has the right to terminate the AAB SSPA at any time prior to the completion of the Proposed AAB Acquisition in any of the following events: -* *(i) the non-defaulting party becomes aware that any of the defaulting party's warranties was untrue or inaccurate; or* *(ii) any inconsistency with the warranties given by the defaulting party is discovered; and/or* *(iii) an AAB Material Adverse Change[(1)] has occurred; or* *(iv) any other breach on the part of the defaulting party of the terms of the AAB SSPA occurring.* *Note: -* *(1) An "**AAB Material Adverse Change**" means any occurrence, condition, change, event or effect that is materially adverse to the AAB Group or our Company and our subsidiaries (as the case may be), taken as a whole, which results in an impact on the financial position or profit / loss after tax of the group of RM65,000,000 or more, provided that none of the following constitutes an AAB Material Adverse Change: -* *(i) any occurrence, condition, change, event or effect resulting from or relating to changes in general economic conditions or financial market conditions (whether relating to equity, debt or currencies);* *(ii) the occurrence of any natural disasters, pandemics and acts of terrorism, except in the event, and only to the extent, of any damage or destruction to or loss of the physical properties of the AAB Group or our Company and our subsidiaries (as the case may be);* *(iii) any occurrence, condition, change, event or effect resulting from or relating to: -* *(a) the announcement or pendency of the proposed sale and/or purchase of the entire AAB Equity Interest (whichever applicable);* *(b) compliance by any party to the AAB SSPA with the terms of the AAB SSPA; and*	breach of warranties. This is crucial, as the parties have entered into the transaction subject to, and after taking into consideration, the warranties provided. We wish to draw the attention to the AAB Material Adverse Change. This term is justifiable, as it provides assurance to both parties that there are no instances of material adverse change (in this context, those exceeding the prescribed threshold of RM65.00 million) remained unnotified to the other party, as well as safeguards the right of the non-defaulting party to claim damages or seek for remedial action in the event of a breach. We noted that a minimum threshold is being imposed and observed that the minimum threshold of RM65.00 million imposed represents approximately 1.71% of the AAB Purchase Consideration. Whilst such term is justifiable where it serves to confine the right to claim to situation where an adverse change that is material relative to the size of the transaction has occurred, which is crucial to enable a smooth and successful implementation of the Proposed AAB Acquisition; we would like to highlight that the imposition of a minimum threshold would have a restrictive effect on the non-defaulting party, whereby the non-defaulting party would have to absorb the losses/damages in the event of such adverse change falls below the prescribed threshold.

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	(c) actions made by any party to the AAB SSPA which are expressly contemplated and permitted by the AAB SSPA, or if not so permitted, otherwise consented to by the Vendor and the Purchaser in writing; and (iv) *any change in laws, regulations, rules or administrative practices of any governmental entity, including a change in tax regime or treatment or the introduction of currency controls which have an effect on the AAB Group or our Company and our subsidiaries (as the case may be) or the contemplated transaction."*	
6.	**Indemnities** *"The Vendor shall not be liable in respect of a specific indemnity claim (with regards to identified matters in the AAB SSPA relating to the conduct of the AAB Group's business prior to completion of the Proposed AAB Acquisition and any other specific indemnities as may be mutually agreed upon completion of the due diligence exercise on the AAB Group by the Purchaser) if it does not exceed RM5,000,000 and in respect of a special claim (with regards to (1) arbitration and litigation proceedings on shareholder disputes in relation to Big Pay Pte Ltd and (2) ongoing litigation proceedings on taxation involving AirAsia (India) Limited) if it does not exceed RM65,000,000. Where the liability exceeds such thresholds, the Vendor shall be liable for the whole amount and not merely the excess over the thresholds. A notice of the specific indemnity claim or the special claim (as the case may be) shall be given by the Purchaser to the Vendor within 24 months following the completion of the Proposed AAB Acquisition.* *The Vendor will indemnify the Purchaser and hold the Purchaser and AAB Group harmless against: -* *(i) any taxation amount (whether or not already assessed or imposed or which may from time to time be assessed or imposed by the relevant governmental authority on the AAB Group after completion of the Proposed AAB Acquisition) in respect of taxation liabilities of any entities within the AAB Group for the period up to the date of completion of the Proposed AAB Acquisition, except insofar as full provision is made for such liabilities in the accounts of any entities within the AAB Group;* *(ii) any claim for income tax in respect of any dividend paid or any distribution made by any entities within the AAB Group before the date of completion of the Proposed AAB Acquisition,*	We are of the view that these terms are common and justifiable, as it serves to safeguard the Company from incurring losses arising from any identified / known ongoing litigation claims or dispute resolution proceedings. We noted that minimum thresholds are being imposed and observed that: - o for special indemnity claim – the prescribed minimum threshold of RM5.00 million represents approximately 0.13% of the AAB Purchase Consideration; and o for special claim – the prescribed minimum threshold of RM65.00 million represents approximately 1.71% of the AAB Purchase Consideration. Whilst such terms are justifiable where they serve to confine the right to indemnity claim to situation where a breach deemed material relative to the size of the transaction has occurred, which is crucial to enable a smooth and successful implementation of the Proposed AAB Acquisition; we would like to highlight that

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	except insofar as full provision is made for such liabilities in the accounts of any entities within the AAB Group; *(iii) any settlement of any actual or threatened claim, demand, direction, apportionment, assessment, recovery or counter-claim of any entities within the AAB Group in respect of taxation liabilities of any entities within the AAB Group for the period up to the date of completion of the Proposed AAB Acquisition;* *(iv) any amount recovered against any entities within the AAB Group in respect of the taxation liabilities of any entities within the AAB Group for the period up to the date of completion of the Proposed AAB Acquisition; and* (v) *any costs reasonably incurred by any entities within the AAB Group in contesting or settling any claim, demand, direction, apportionment, assessment, recovery or counter-claim as aforesaid, whether threatened or made, in respect of taxation liabilities of any entities within the AAB Group for the period up to the date of completion of the Proposed AAB Acquisition."*	the imposition of a minimum threshold would have a restrictive effect on the non-defaulting party, whereby the non-defaulting party would have to absorb the losses/damages in the event of such specific indemnity claim or special claim falls below the prescribed threshold.
7.	**Limitation of liability in respect of breach of warranties** *"7.1 Either party to the AAB SSPA shall not have liability in respect of any claims arising from the breach of its warranties ("**AAB Claim**") to the extent that the facts, matter or circumstances giving rise to the AAB Claim are disclosed in its disclosure letter and the AAB SSPA.* *7.2 **Time limitation**: Either party to the AAB SSPA shall not be liable under the AAB SSPA in respect of any AAB Claim unless a notice of the AAB Claim is given by the other party: -* *(i) in the case of any AAB Claim relating to tax matters, within the applicable limitation period as stipulated under the relevant laws relating to taxation;* *(ii) in the case of any AAB Claim relating to the fundamental warranties (as identified in the AAB SSPA), within 6 years following completion of the Proposed AAB Acquisition; or* *(iii) in the case of any other AAB Claim, within 24 months following completion of the Proposed AAB Acquisition.* *7.3 **Minimum claims:** Subject to aggregate minimum claims in Section 7.4 of this Appendix II(B), either party to the AAB SSPA shall not be liable in respect of an AAB Claim under the AAB*	We are of the view that these terms and common and justifiable, as these terms clarify the timeframe for liability in respect of breach of warranties as well as situation and quantum upon which liability in respect of breach of warranties may be claimed. We noted that minimum thresholds are being imposed and observed that: - o a minimum threshold of 0.1% of the AAB Purchase Consideration or RM3.80 million is being imposed for claims, subject to the aggregate minimum claims; and o a minimum threshold of 1.0% of the AAB Purchase Consideration or RM38.00 million is being imposed for aggregate minimum claims.

<table>
<tr><th>No.</th><th>Salient terms of the SSPAs</th><th>WYNCORP's comments</th></tr>
<tr><td colspan="3">Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)</td></tr>
<tr><td></td><td>SSPA in respect of any individual AAB Claim (provided that AAB Claims in respect of similar facts and circumstances may be aggregated for this purpose) where the liability in respect of any such AAB Claim does not exceed 0.1%[(1)] of the AAB Purchase Consideration (i.e. RM3,800,000). Where the liability exceeds such threshold, the defaulting party shall be liable for the whole amount and not merely the excess over the said threshold.

Note: -
(1) The threshold of 0.1% was arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.4 Aggregate minimum claims: Either party to the AAB SSPA shall not be liable under the AAB SSPA in respect of any AAB Claim (excluding AAB Claim for which liability is excluded under Section 7.3 of this Appendix II(B)) unless and until the aggregate amount of all such AAB Claims exceeds 1%[(1)] of the AAB Purchase Consideration (i.e. RM38,000,000). Where the liability exceeds such threshold, the defaulting party shall be liable for the whole amount and not just the excess over the said threshold.

Note: -
(1) The threshold of 1% was arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.5 Maximum liability: The aggregate liability of either party to the AAB SSPA in respect of all AAB Claims under the AAB SSPA shall not exceed: -

(i) 100%[(1)] of the AAB Purchase Consideration (i.e. RM3,800,000,000) in the case of any Claim relating to the fundamental warranties (as identified in the AAB SSPA); and

(ii) 25%[(1)] of the AAB Purchase Consideration (i.e. RM950,000,000) in the case of any other Claim.

Note: -
(1) The thresholds of 100% and 25% were arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.6 None of the limitations above shall apply to any AAB Claim which arises or is increased or is delayed as the consequence of fraud or wilful concealment by either party to the AAB SSPA</td><td>Whilst such terms are justifiable, as they allow for ease of handling and monitoring by reducing the hassles in attending to smaller claim(s) the amount of which could be deemed immaterial or insignificant relative to the size of the transaction, we would like to highlight that the imposition of a minimum threshold would have a restrictive effect on the non-defaulting party, whereby the non-defaulting party would have to absorb the losses/damages in the event of such claim falls below the prescribed minimum threshold.

We further noted that capping is being imposed on maximum liability and observed that: -

○ a capping of 100% of the AAB Purchase Consideration (i.e. RM3,800.00 million) in the case of any AAB Claim relating to the fundamental warranties (as identified in the AAB SSPA); and

○ a capping of 25% of the AAB Purchase Consideration (i.e. RM950.00 million) in the case of any other AAB Claim.

Whilst such terms are justifiable, taking into consideration warranties have been provided and the completion of the Proposed AAB Acquisition is subject to conditions precedent for the completion of the due diligence exercise comprising examination and verification of the financial, legal and other affairs of the AAB Group by accountants, valuers, solicitors or such other professionals (if required) and the results of the due diligence exercise being reasonably satisfactory to the Company, we</td></tr>
</table>

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	or any of its directors, officers, employees, agents, advisers, representatives or successors in title of such party."	would like to highlight that the imposition of a capping on the maximum liability (particularly the capping of 25% of the AAB Purchase Consideration i.e. RM950.00 million imposed for any other AAB Claim) would have a restrictive effect on the non-defaulting party, whereby the non-defaulting party would have to absorb the losses/damages in the event of such claim goes beyond the prescribed capping on the maximum liability. Notwithstanding that, we noted that the limitation of liability would not apply to any AAB Claim which arises or is increased or is delayed as the consequence of fraud or wilful concealment by either party to the AAB SSPA or any of its directors, officers, employees, agents, advisers, representatives or successors in title of such party. This safeguards the right to claim damages of the non-defaulting party, regardless of materiality of the sum, in the event of fraud and wilful concealment.
8.	**Non-competition and protective covenants** *"The Vendor undertakes that it will not, and will procure that the Vendor Group will not during the period commencing on the date of completion of the Proposed AAB Acquisition and ending on the date falling 5 years after the completion of the Proposed AAB Acquisition: -* *(i) carry on in, be engaged in or hold a substantial shareholding or equity interest (save for the equity interest held in the Purchaser) in, either directly or indirectly, in any capacity, in any trade, business or occupation, or in any manner take part in or lend its name, counsel or assistance to any person in any capacity whatsoever, for any purpose, in any other business or activity which is same or similar to or competing with the aviation business operations of the AAB Prohibited Business[(1)];*	We are of the view that this term is common and justifiable, as it serves to protect AAX and the enlarged aviation group (upon completion of the Proposed AAB Acquisition) from unwanted competition from Capital A and its subsidiaries in relation to the current aviation business operations of AAB Group. This is crucial as the valuation of AAB Group is subject to certain key underlying bases and assumptions and heavily dependent on AAB (as an AOC) continues to operate as a going-concern and achieve continual and sustainable growth in terms of revenue and profitability level.

No.	Salient terms of the SSPAs	WYNCORP's comments
Salient terms of the AAB SSPA (as set out in Appendix II(B) of the Circular)		
	(ii) canvass, solicit, entice away, induce or encourage any employee or consultant or customer, the custom of the AAB Group and/or their affiliates to curtail, terminate or cease their employment or affiliation or custom / business with the AAB Group; and *(iii) be engaged in any act which is premeditated or in preparation or in readiness to effect or put in place any of the matters set out in paragraphs 8(i) and 8(ii) above;* *provided that (i) the covenants under this paragraph 8 shall only take effect following and subject to completion of the Proposed AAB Acquisition and (ii) the covenants under this paragraph 8 shall not apply in respect of any member within the Vendor Group which is involved in the AAB Prohibited Business[(1)] as at the date of the AAB SSPA. In this respect, the Vendor represents, warrants and confirms that the only entities within the Vendor Group which are involved in the AAB Prohibited Business[(1)] (other than the AAB Group) are the AAAGL Group.* *Note: -* *(1) "**AAB Prohibited Business**" means the current aviation business operations of the Purchaser and the AAB Group, which is the provision of domestic or international air transportation services which includes the medium to long-haul flights, short-haul flights and commercial flights, but excluding any existing business operations of the Vendor Group provided that the Vendor Group does not include the AAB Group."*	

7.5 Industry outlook and prospects

7.5.1 Overview and outlook of the aviation industry

We noted on the overview and outlook of the aviation industry as set out in Section 9.1, Part A of the Circular: -

"The industry's air passenger traffic, measured in RPK, grew healthily in July 2024 while maintaining the trend of a smooth transition towards lower conventional figures. Volumes continued to soar above previous months and years. Yearly growth stood at 9.4% while 0.7% in month-on-month terms, based on seasonally adjusted data.

The supply of seats, measured in ASK, continued to grow, exemplified by an increase of 7.4% year-on-year. The load factor further improved, reaching 86%, following a positive streak that started in January of this year. Moreover, July 2024's load factor resulted in 0.5 percentage points above the previous year, suggesting higher demand for air travel. In year-to-date terms, load factor marked 0.5 percentage points above the previous year's. Despite the CrowdStrike IT outage on July 19, which affected global computers including those at airports and airlines, there was no noticeable negative impact on the industry.

Industry growth rates are gradually moderating, including in July. However, Asia Pacific airlines continue to lead in traffic growth. Particularly, the transition for Asia Pacific is prominent thanks to traffic surges from low volumes in 2023. It emphasizes the region's presence and effect on the industry's total passenger traffic growth.

<u>*Air Passenger Market in Detail – July 2024*</u>

	World share (% of industry RPKs in 2023) (%)	***RPK (% year-on-year)***	***ASK (% year-on-year)***	***Passenger load factor (%)***
Total market	***100.0***	***8.0***	***7.4***	***86.0***
Africa	*2.1*	*6.6*	*5.8*	*75.0*
Asia Pacific	*31.7*	*12.0*	*9.8*	*83.4*
Europe	*27.1*	*7.2*	*7.0*	*88.2*
Latin America	*5.5*	*7.5*	*8.4*	*86.2*
Middle East	*9.4*	*6.1*	*5.5*	*84.0*
North America	*24.2*	*4.9*	*5.1*	*88.9*

(Sources: Air Passenger Market Analysis July 2024, IATA)

As of 2024, the airline industry can turn its back on the COVID-19-induced crisis. This is a remarkable rebound, considering the initial shock that saw RPKs drop by 93% in April 2020.

Domestic travel bounced back to the pre-COVID-19 level in the spring of 2023, while international routes did so only recently. Total traffic matched and surpassed 2019 numbers in February 2024. The global network, however, has evolved since 2019. China's international traffic recovery has been slower due to the later easing of travel restrictions, economic uncertainties, and geopolitical tensions. Domestic traffic, on the other hand, has surged thanks to internal tourism, reaching record numbers. Moreover, traffic between Asia and Europe remains affected by the war in Ukraine.

Most regions are expected to climb above 2019 levels in 2024, and most countries will experience continuous growth. Connectivity to Asia Pacific should be fully restored this year. The anticipated increase in total passenger numbers for 2024 is 10.4% year-on-year or 11.6% in RPK.

Over the next 20 years, IATA expects world passengers to increase by 3.8% per year on average, resulting in over 4 billion additional passenger journeys in 2043 compared to 2023. European and North American markets will see a slower rise in demand, 2.3% and 2.7% per year respectively. Asia Pacific is anticipated to record the fastest rise in passenger numbers and to contribute to more than half of the net increase in global passenger numbers by 2043.

Region	***CAGR (2023 - 2043), %***	***Additional passengers by 2043, million***
Africa	*3.7*	*179*
Asia Pacific	*5.3*	*2,750*
Europe	*2.3*	*656*
Middle East	*3.9*	*282*
North America	*2.7*	*659*
Latin America & Caribbean	*2.9*	*311*
World	***3.8***	***4,154***

*The region is also slated to experience solid economic growth and improving living standards, which will drive demand for air transport well beyond the global average. Gross domestic product ("**GDP**") in the Asia Pacific region will grow by 65% over the coming 20 years, and trips per capita should almost triple. As a result, nearly half of global passenger traffic will originate or depart from the region in 2043, as opposed to 34.1% in 2023. The larger share of the region in total global traffic comes at the expense of the US, Europe, and Latin America which shares will fall. The Middle East and Africa are likely to see stable shares of the global total.*

IATA's baseline forecast comes with a large range of uncertainty that considers the upside and downside factors which could affect the industry's trajectory and air passenger demand. Favourable macro-economic conditions, such as the normalisation of supply chains and lower inflation rates, could potentially lead to an increase in demand. However, geopolitical tensions and conflicts, particularly the ongoing wars in Ukraine and the Middle East, pose substantial risks to the global economy. In addition, new climate policies could dampen the growth in demand for air travel over the coming decades. Overall, the balance of risks remains tilted to the downside, in the near-term but also in the longer term.

(Source: Global Outlook for Air Transport June 2024, IATA)

In 2024, the MAVCOM anticipates passenger traffic to reach between 93.9 million and 107.1 million passengers, reflecting a growth between 10% year-on-year and 25% year-on-year. This forecast signifies a recovery of up to 98% of 2019 levels. Domestic and international travel to China and the Association of Southeast Asian Nations (ASEAN) region will influence the recovery momentum.

In the tabling of the 2024 Budget, the government has allocated RM350.0 million to boost tourism promotion and activities to promote Malaysia as the top destination for international tourists. There will also be other initiatives to encourage more visitors from China and India, such as improving visa-on-arrival facilities, social visit passes, and multiple-entry visa offers.

(Source: Malaysian Aviation Industry Outlook December 2023, MAVCOM)

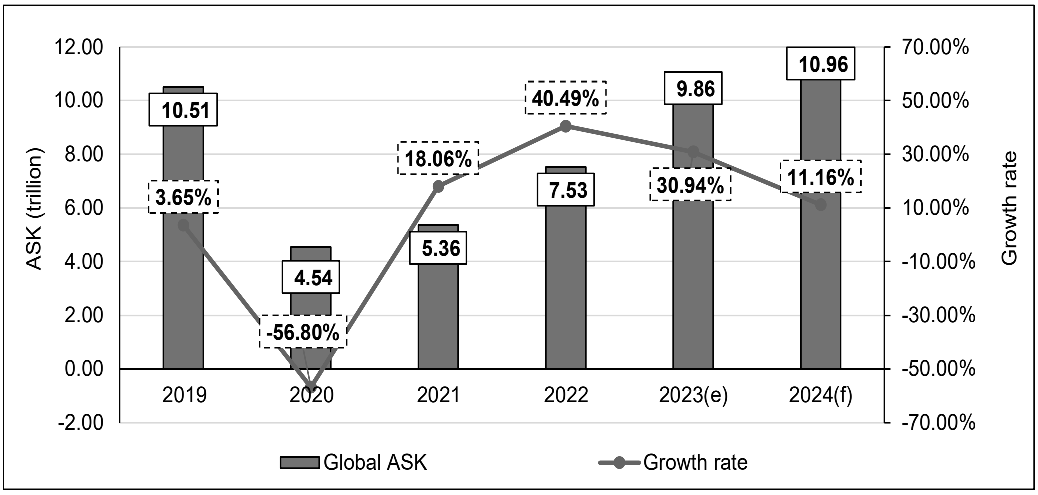
Supply conditions of the aviation industry

ASK measures flight capacity to transport passengers. It is calculated by multiplying the number of passenger seats available for sale and distance travelled.

As a result of decreased demand for air travel due to the COVID-19 pandemic, global ASK decreased year-on-year by 56.80% from 10.51 trillion in 2019 to 4.54 trillion in 2020. Following the gradual and eventual complete subsidence of the COVID-19 pandemic, the resumption of airline operations and improved demand for air travel have led to the restoration of operating aircraft, routes and frequencies by airlines in order to support the improved demand for air travel. From 2020 to 2022, global ASK recovered at a CAGR of 28.79% from 4.54 trillion to 7.53 trillion.

IATA estimates continued global ASK recovery in 2023, growing at a year-on-year rate of 30.94% to 9.86 trillion, and expects global ASK to return to pre-COVID-19 levels in 2024, reaching 10.96 trillion with a 11.16% growth rate.

ASK (Global), 2019 – 2024(f)

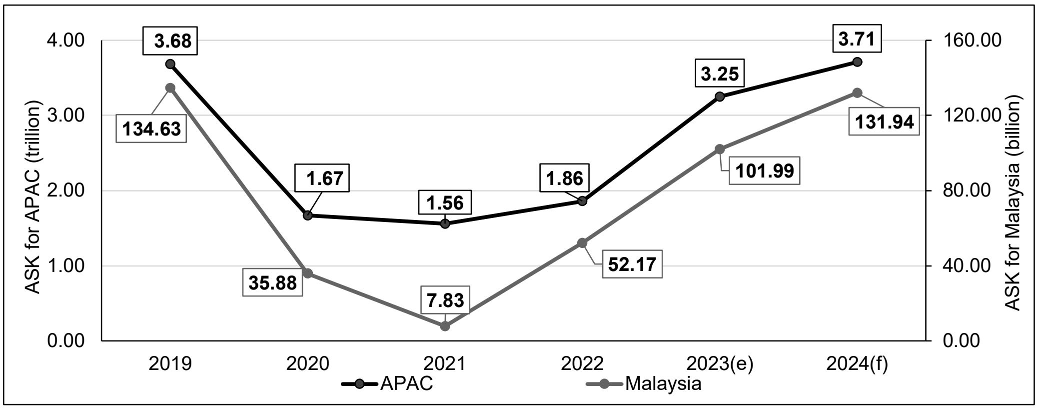


<u>Notes: -</u>

- e – estimate
- f – forecast

*(Sources: IATA, International Civil Aviation Organization ("**ICAO**"), SMITH ZANDER)*

ASK (Asia Pacific (APAC) and Malaysia), 2019 – 2024(f)



<u>Notes: -</u>

- e – estimate
- f – forecast

(Sources: IATA, ICAO, MAVCOM, SMITH ZANDER)

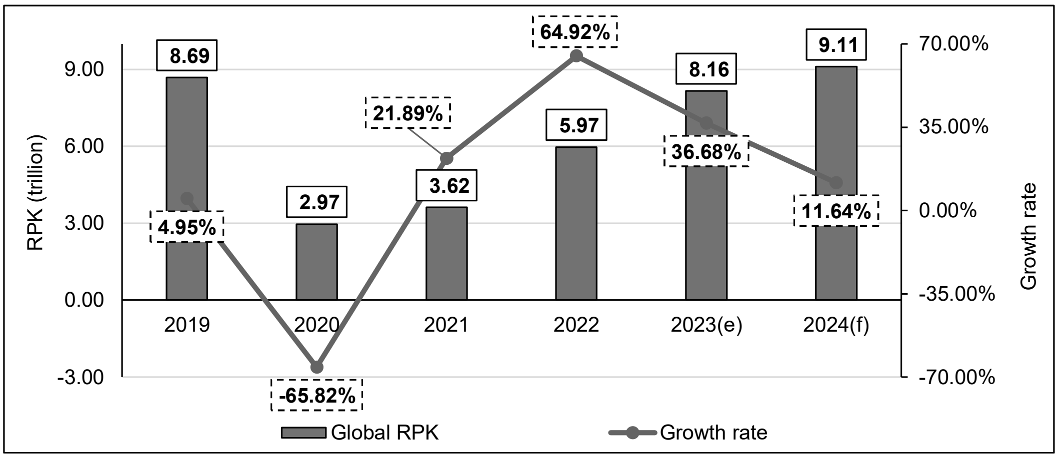
In line with the decline in global ASK between 2019 and 2021, ASK recorded for Asia Pacific and Malaysia also showed negative trends over the same period. During this period, ASK for Asia Pacific fell at a CAGR of 34.89% from 3.68 trillion to 1.56 trillion. Meanwhile, ASK for Malaysia decreased at a CAGR of 75.88% from 134.63 billion to 7.83 billion. From 2021 to 2022, ASK for Asia Pacific recovered by 19.23% from 1.56 trillion to 1.86 trillion while ASK for Malaysia recorded a massive growth of 566.28% from 7.83 billion to 52.17 billion. In 2022, Malaysia recorded a higher ASK recovery rate compared to Asia Pacific as air travel resumed with the full opening of its international borders in April 2022, while the international borders of some countries in Asia Pacific, particularly China, remained close throughout 2022.

With the reopening of China's international borders on 8 January 2023, the demand for air transportation services is expected to significantly boost and drive the recovery of ASK for Asia Pacific and Malaysia. IATA estimates ASK for Asia Pacific to grow year-on-year by approximately 74.73% to 3.25 trillion in 2023 and by approximately 14.15% to 3.71 trillion in 2024, which exceeds its pre-COVID-19 levels. Over the same period, SMITH ZANDER estimates ASK for Malaysia to expand year-on-year by 95.50% to 101.99 billion in 2023 and by 29.37% to 131.94 billion in 2024, which is close to its pre-COVID-19 levels, in tandem with MAVCOM's expectation of passenger traffic to reach close to 2019 levels in 2024.

Market demand of the aviation industry

RPK is a measure of flight demand from passengers through the multiplication of the number of paying passengers in a flight by the distance travelled by the aircraft.

RPK (Global), 2019 – 2024(f)



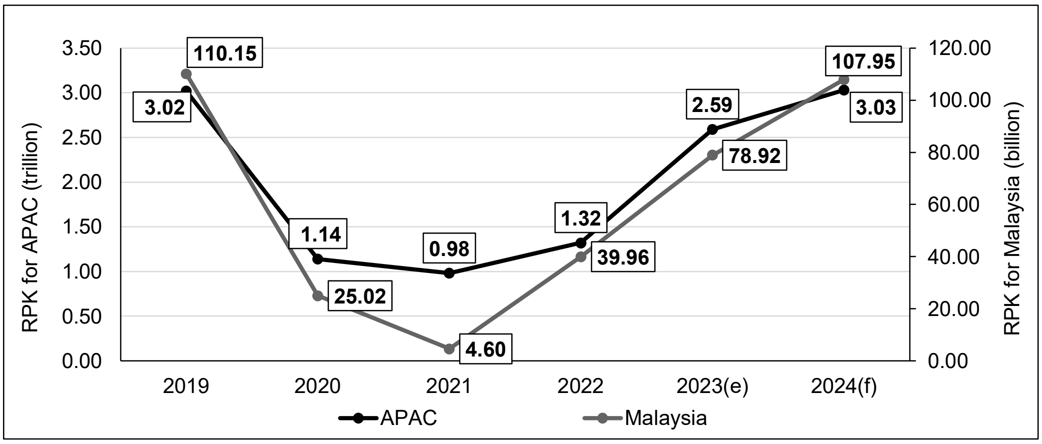
Notes: -
- e – estimate
- f – forecast

(Sources: IATA, SMITH ZANDER)

Consistent with the decrease in demand for air travel due to the COVID-19 pandemic, global RPK decreased year-on-year by 65.82% from 8.69 trillion in 2019 to 2.97 trillion in 2020. The decline in RPK shows that airlines were flying with significantly less passenger loads during this period which resulted in less revenue generated from each flight. With the recovery of air travel, global RPK increased from 2.97 trillion in 2020 to 5.97 trillion in 2022, at a CAGR of 41.78%.

The recovery in demand for air travel which ensued the ease of the COVID-19 pandemic impact resulted in the restoration of operating aircraft, routes and frequencies by airlines to meet this demand, which boosted global RPK. IATA estimates global RPK to surge by 36.68% in 2023 to 8.16 trillion. According to IATA, global RPK has returned to its pre-COVID-19 levels as of February 2024. As such, IATA expects global RPK to grow year-on-year by 11.64% to 9.11 trillion in 2024.

RPK (Asia Pacific (APAC) and Malaysia), 2019 – 2024(f)



Notes: -

- e – estimate
- f – forecast

(Sources: IATA, ICAO, MAVCOM, SMITH ZANDER)

The RPK for Asia Pacific and Malaysia also showed negative trends for the period of 2019 to 2020, consistent with that for global RPK, as airlines were generating significantly lower revenue from each flight compared to pre-COVID-19 levels. From 2019 to 2021, the RPK for Asia Pacific decreased from 3.02 trillion to 0.98 trillion, at a negative CAGR of 43.03%, while the RPK for Malaysia decreased from 110.15 billion to 4.60 billion, at a negative CAGR of 79.56%.

The recovery of RPK for Asia Pacific and Malaysia were relatively slower than global RPK, which began recovering in 2021 with the reopening of international borders in Europe and North America that led to recovery rates of 103.90% and 45.70% respectively in 2022. In 2022, the RPK for Europe and North America, at 1.77 trillion and 1.69 trillion respectively, overtook the RPK for Asia Pacific at 1.32 trillion, which was the leading region prior to the COVID-19 pandemic.

Nevertheless, many countries in Asia Pacific began to reopen their international borders in 2022 which fuelled the significant recovery in RPK for Asia Pacific by 34.69% to 1.32 trillion in 2022 from 0.98 trillion in 2021. Meanwhile, RPK for Malaysia expanded significantly by 768.70% in 2022, growing from 4.60 billion to 39.96 billion.

Further, China had also reopened its international borders on 8 January 2023. The reopening of China's international borders and other similar factors driving the recovery of passengers carried were expected to boost the recovery of RPK for Asia Pacific and Malaysia from 2023 onwards. IATA estimates RPK for Asia Pacific to recover at a CAGR of 51.51% from 1.32 trillion in 2022 to 3.03 trillion in 2024, which exceeds its pre-pandemic levels in 2019. SMITH ZANDER forecasts the RPK for Malaysia to increase from 39.96 billion in 2022 to 107.95 billion in 2024 at a CAGR of 64.36%, which is close to its pre-COVID-19 levels, in tandem with MAVCOM's expectation of passenger traffic to reach close to 2019 levels in 2024.

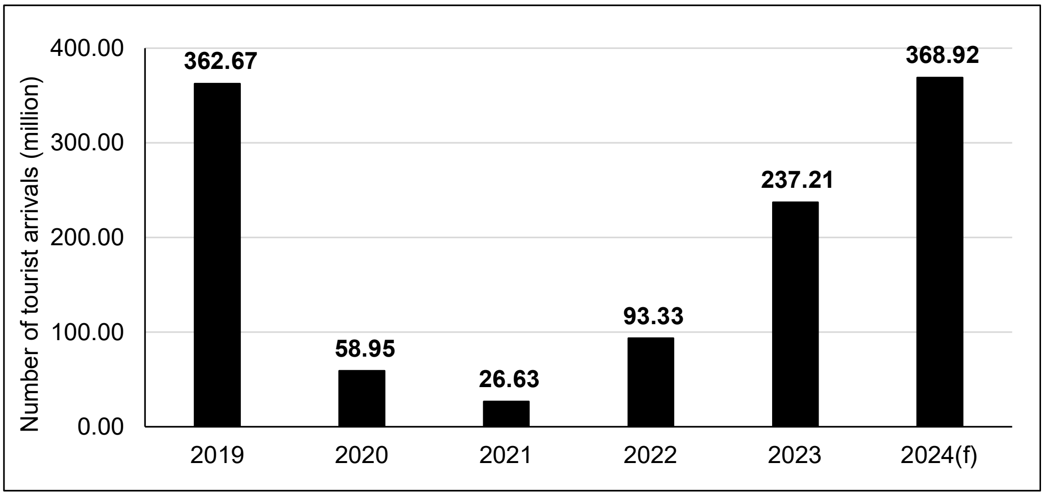
Demand drivers of the aviation industry

The growth of the aviation industry is expected to be driven and sustained by people's general desire to travel, government initiatives to revive the travel and tourism industry and attract international tourist spending, as well as economic growth which spurs the demand for air travel for leisure and business.

Pursuant to the outbreak of the COVID-19 pandemic, many countries closed their country borders, imposed nationwide lockdowns and/or implemented domestic and international travel restrictions as measures to contain the spread of the disease. This caused adverse impact to the travel and tourism industry as reflected in the decline in the number of tourist arrivals in Asia Pacific and Malaysia in 2020 and 2021. Following the uplifting of movement restrictions and reopening of international borders in 2022, travel and tourism activities have recovered due to people's pent-up desire to travel resulting from the prolonged lockdowns.

Tourist arrivals in Asia Pacific declined from 362.67 million in 2019 to 26.63 million in 2021 by a negative CAGR of 72.90%. From 2021 to 2023, the number of tourist arrivals in Asia Pacific recovered at a CAGR of 198.46% from 26.63 million to 237.21 million. SMITH ZANDER estimates that the number of tourist arrivals in Asia Pacific will exceed pre-COVID-19 levels at 368.92 million in 2024, at a year-on-year growth of 55.52%.

Number of tourist arrivals (Asia Pacific), 2019 – 2024(f)

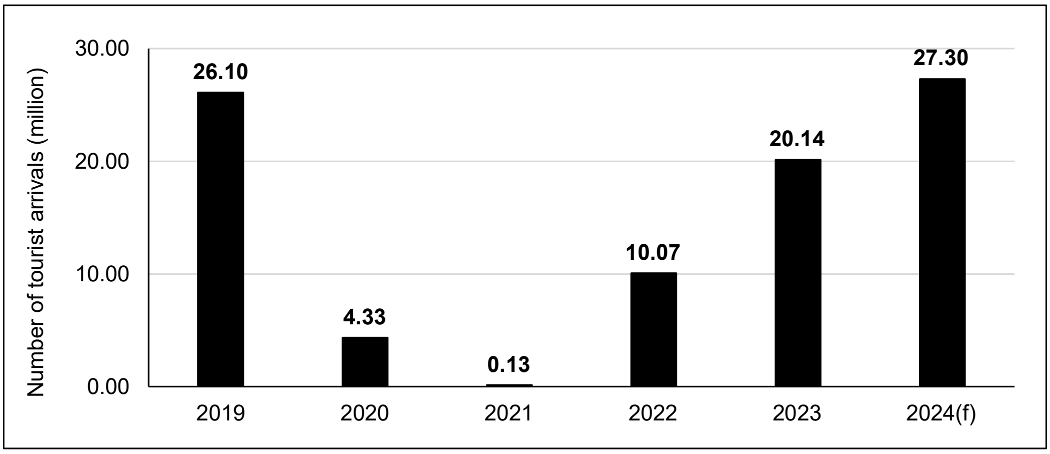


Note: -
- *f – forecast*

(Sources: United Nations World Tourism Organization, SMITH ZANDER)

Tourist arrivals in Malaysia declined from 26.10 million in 2019 to 0.13 million in 2021 at a negative CAGR of 92.94%. It has recovered at a CAGR of 1,144.68% from 0.13 million tourist arrivals in 2021 to 20.14 million tourist arrivals in 2023. Tourism Malaysia expects the number of tourist arrivals to reach 27.30 million in 2024, exceeding pre-COVID-19 levels, registering a year-on-year growth of 35.55%. In conjunction with Visit Malaysia Year 2026, the Ministry of Tourism, Arts and Culture, Malaysia is expecting 35.60 million tourists in 2026, an increase at CAGR of 4.53% from pre-COVID-19 levels of 26.10 million tourists in 2019.

Number of tourist arrivals (Malaysia), 2019 – 2024(f)



Note: -

- *f – forecast*

(Sources: Tourism Malaysia, SMITH ZANDER)

Further, as China began to reopen its international borders on 8 January 2023, outbound tourism from China has improved significantly and is expected to have boosted the growth of the tourism and aviation industry in the Southeast Asia region, which was the most popular outbound destination for Chinese tourists in 2019 where it accounted for approximately 60% of total outbound tourists from China. In 2019, Southeast Asian countries accounted for 6 out of the top 15 outbound travel destinations for Chinese tourists.

Based on the targets set by the Civil Aviation Administration of China (CAAC) in its 14th Five-Year Special Plan for Air Logistics Development, the target passenger traffic for international routes in 2025 of 65 million passengers is expected to exceed the pre-COVID-19 level of 44 million passengers in 2019.

To revive the travel and tourism industry, the governments of Malaysia and many countries across Asia Pacific have introduced various measures, with examples as follows:

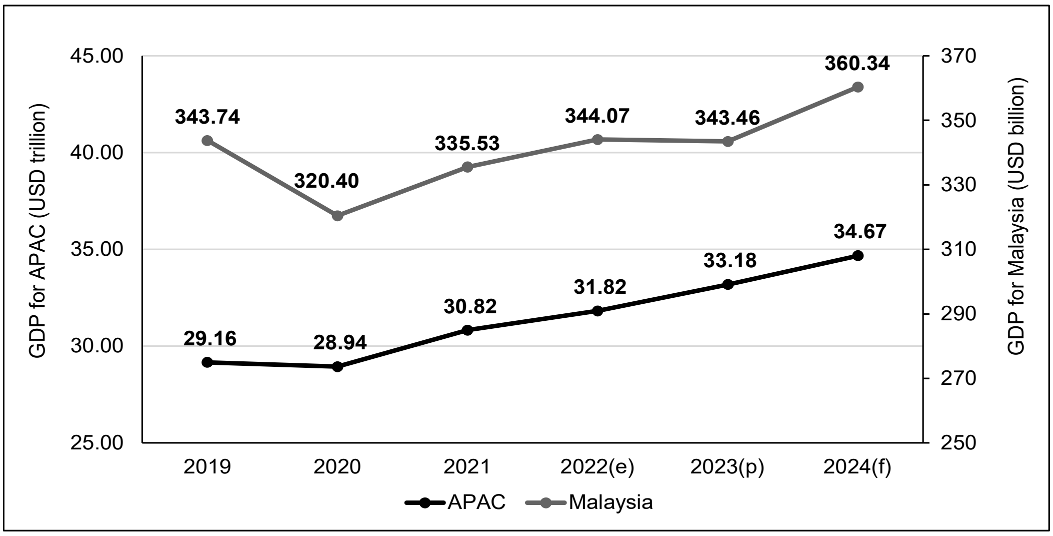
Country	***Initiatives and measures taken***
Malaysia	*Under Budget 2024, RM350 million will be allocated to support the promotion of the Visit Malaysia Year 2026 campaign, organisation of cultural and art activities, matching grants for charter flights and funds to support Muslim-friendly tourism.*
Thailand	*Effective 1 March 2024, Thailand adopted a permanent visa-free entry policy for Chinese nationals, allowing stays for a maximum of 30 days, which is expected to attract and benefit 8 million Chinese visitors in 2024, a little under the pre-COVID-19 figure of 11 million. This is expected to spur Thailand's tourism industry as Chinese tourists were the nation's key tourism industry driver pre-COVID-19.*
Indonesia	*The Government of Indonesia is setting their sight on initiating the Indonesia Tourism Quality Fund worth IDR2 trillion or around USD123.50 million, aiming at promoting the tourism industry as well as national branding through sports events, concerts and business events, which are expected to attract international tourists.*

Country	*Initiatives and measures taken*
Philippines	*In March 2023, the Government of the Philippines launched the 2023 – 2028 National Tourism Development Plan which outlines the nation's measures to achieve its aspiration in becoming a tourism powerhouse in Asia. Amongst these measures are to boost the nation's connectivity by aiming to increase more routes for air and sea travel as well as the development of more tourist spots and linking key destinations to emerging tourist spots.*
China	*The Government of China has re-implemented visa-free entry policies that were in place prior to the COVID-19 pandemic following the full reopening of its borders as an effort to foster the recovery of travel and tourism in China. The visa-free entry policies currently in place are applicable for tourists from countries including Malaysia, Thailand, Singapore, Switzerland, Ireland, Hungary, Austria, Belgium and Luxembourg.*

(Source: Various sources)

Economic activities in Malaysia and Asia Pacific have recovered from the adverse impact of the COVID-19 pandemic and demonstrated growth, as reflected in their respective GDP growth as shown below: -

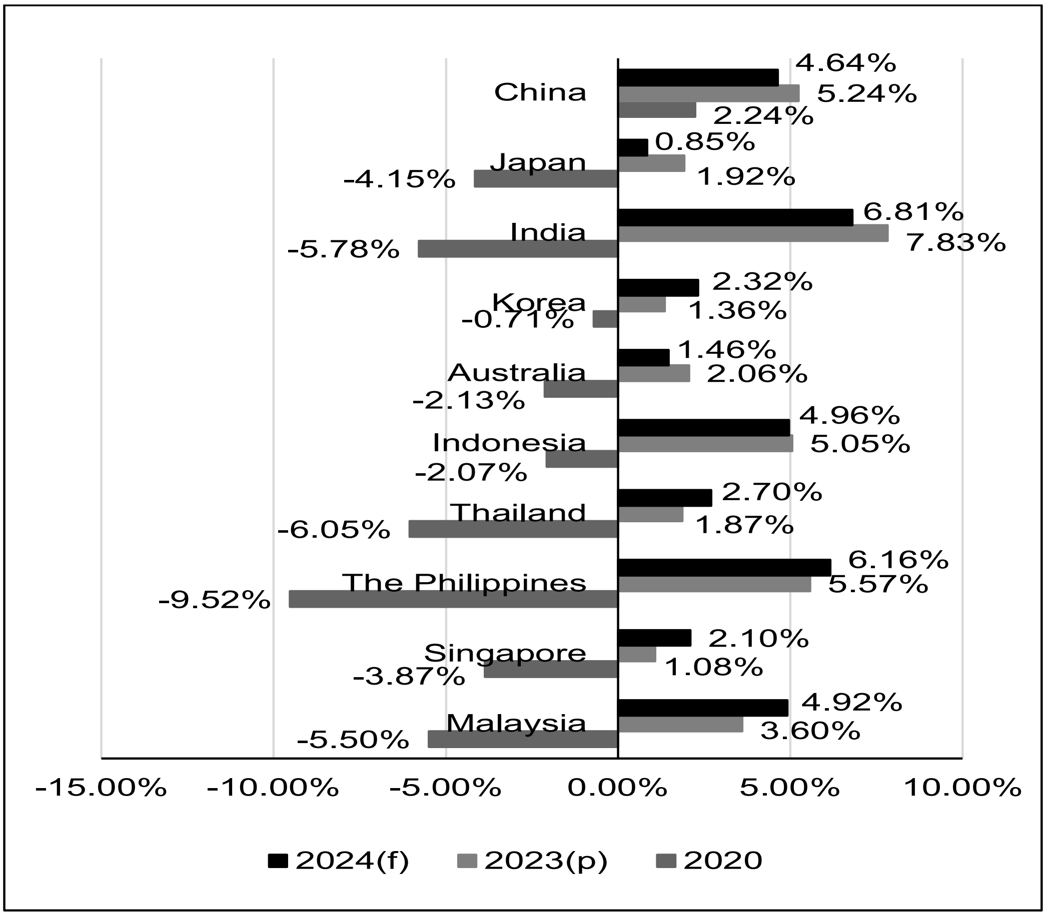
GDP (Asia Pacific (APAC) and Malaysia), 2019 – 2024(f)



Notes: -
- *e – estimate*
- *p – preliminary*
- *f – forecast*

(Sources: Department of Statistics Malaysia, International Monetary Fund, Ministry of Finance Malaysia, The World Bank, SMITH ZANDER)

GDP Growth of top 10 GDP countries in Asia Pacific



Notes: -
- *p – preliminary*
- *f – forecast*

(Sources: Department of Statistics Malaysia, International Monetary Fund, Ministry of Finance Malaysia, SMITH ZANDER)

In 2023, the GDP of major economies in Asia Pacific demonstrated positive GDP growth following the declines in 2020, and is expected to continue to record positive GDP growth in 2024 as shown above. With greater wealth, there will be higher disposable income to support leisure and business travel.

Further, air travel is an essential industry to support the business travel required to set up, operate and expand businesses. In order to boost economic growth over the next few years, countries in the Asia Pacific region have introduced various business incentives and investment opportunities, with examples as follows: -

- *In Malaysia, with the aim of building a wider ecosystem for the electronics and electrical sector in the northern region of Peninsular Malaysia, the Government has through the Budget 2024 proposed to open a high-tech industrial area in Kerian, Northern Perak, following the success of industrial areas in Bayan Lepas, Penang and Kulim Hi-Tech Park, Kedah in the electronics and electrical sector.*

- *In Thailand, the Government has approved the 2023 – 2027 Investment Promotion Strategy in October 2022 with the intention to restructure and strengthen the country's economy. Among the incentives include the relocation program which offers corporate income tax exemption to companies that relocate their regional headquarters, research and development centres, and/or manufacturing facilities to Thailand.*

- *In Indonesia, for a capital investment plan starting at IDR500 billion, the Government may offer a 100% tax holiday on corporate income tax due for 5 to 20 years from the beginning of commercial production, depending on the amount of the investment. Following the completion of the tax holiday, the companies are eligible to receive a 50% corporate income tax reduction for two years.*

- *In the Philippines, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was implemented to provide various business incentives such as the reduction of Regular Corporate Income Tax rates whereby the Regular Corporate Income Tax rate for domestic corporations with net taxable income under PHP5 million and total assets under PHP100 million is reduced from 30% to 20% while all other domestic corporations and resident foreign corporations are eligible for Regular Corporate Income Tax rate reduction from 30% to 25%.*

Premised on the above, moving forward, the aviation industry will benefit from improved economic activities, which will spur leisure and business travel and drive the demand for passenger air services.

Low-cost carriers are believed to be able to continue increasing their growth and penetration in the aviation industry due to their core advantage of offering value flight services at lower-priced fares by placing emphasis on the core service which is transporting passengers by air from one destination to another with minimal complimentary ancillary services. Hence, low-cost carriers are generally more resilient and flexible in managing their cost structure to be able to offer low fares amidst sustaining through crises such as the COVID-19 pandemic. Moving forward, the sustainability of low-cost carriers is expected to be supported by the above premises, alongside their leverage on the recovery in air travel and surging demand for leisure travel as they continue to increase their capacity and rebuild their networks."

(Source: IMR Report)

7.5.2 Prospects of the Target Companies and the New Aviation Group

We noted on the prospects of the Target Companies and the New Aviation Group as set out in Section 9.2, Part A of the Circular: -

"With the Proposed Acquisitions, the New Aviation Group will house award-winning airlines with over 22 years of established history and track record, not to mention the reach to the world from its home region of Southeast Asia. Over the years, the New Aviation Group had received numerous awards and recognitions for its success in the aviation business, such as the World's Best Low-Cost Airline by Skytrax World Airline Awards for 15 consecutive years since 2009, and the World's Leading Low-Cost Airline by World Travel Awards for 11 consecutive years since 2013.

The New Aviation Group will continue to adopt a business model that will enable it to offer low fares by maintaining low cost per ASK, which has contributed to the past success of the airlines. The ability of the airlines to offer low fares and maintain low cost per ASK is attributed to no-frills flights business model adopted, high aircraft utilisation, in-house and direct customer acquisition channels (i.e. www.airasia.com and AirAsia MOVE app), efficient usage of data, technology and automation in all aspects of operations, i.e., a lean cost structure.

The extensive network connectivity and high flight frequencies offered by the airlines to be housed under the New Aviation Group will allow the enlarged aviation group to capture the travel needs of a wide range of customers travelling within the Southeast Asia and Asia Pacific regions. The airlines can leverage on each airline's routes and high flight frequencies to offer

Fly-Thru flights whereby passengers can purchase connecting flights offered by the airlines for travels within the Southeast Asia and Asia Pacific regions. Therefore, this allows the New Aviation Group to potentially capture a higher market share for air travel within the regions.

The New Aviation Group will be led by a seasoned key senior management team with extensive experience in the aviation industry and in-depth operational knowledge of the respective airlines to be housed under the enlarged aviation group. Upon completion of the Proposed Acquisitions, under the leadership of Bo Lingam as the Group Chief Executive Officer of the New Aviation Group, the existing key senior management of the respective airlines will carry on their existing roles and responsibilities to ensure smooth daily operations including the execution of future plans and business strategies under the enlarged aviation group.

As the economic activities and supply chain of the aviation industry normalise, the aviation industry in Malaysia and Asia Pacific region is forecasted to recover close to / exceed their respective pre-COVID-19 levels by 2024. The recovery and growth of the industry are also expected to be fuelled by the various measures introduced by the respective government to revive the travel and tourism industry e.g. the granting of visa-free travel to Malaysia for up to 30 days for tourists from China and India by the Government of Malaysia effective 1 December 2023 until 31 December 2026 and 31 December 2024 respectively and the declaration of Visit Malaysia Year 2026. These are expected to drive the demand for air travel to and from Malaysia, China, India and around the Asia Pacific countries. In conjunction with Visit Malaysia Year 2026, the Ministry of Tourism, Arts and Culture, Malaysia is expecting RM147.1 billion in income from 35.6 million tourists in 2026, an increase at CAGR of approximately 8.0% and 4.5% respectively from pre-COVID-19 levels of RM86.1 billion in income and 26.1 million tourists in 2019.

With the respective industry track record of each airline to be housed under the New Aviation Group, as well as the synergistic benefits from the AirAsia Ecosystem and competitive strengths of the New Aviation Group, the enlarged aviation group is well-positioned to capitalise on the anticipated recovery of air travel moving forward through the following strategies and plans: -

- *Over the next 3 years, the airlines within the New Aviation Group will focus on increasing their flight frequencies and expand their fleet of aircraft accordingly to capture the growing demand for air travel and maintain their positions as one of the market leaders in the respective regions where the airlines operate in. 'AirAsia Cambodia', the newly established airline of AAAGL, has recently commenced its operation in Cambodia in May 2024, utilising 2 A320 aircraft based at Phnom Penh International Airport to serve domestic flight operations, covering Phnom Penh, Siem Reap, and Sihanoukville and in August 2024, 'AirAsia Cambodia' launched its first international flight from Phnom Penh to Kuala Lumpur. The New Aviation Group will also assess the potential of expanding its coverage to new destinations.*

- *The New Aviation Group intends to capitalise on the growing prospects of the aviation industry by increasing its passenger volume which will then contribute to the growth in its market share. This is in line with the New Aviation Group's strategies as it envisages to maintain its position as one of the market leaders in the regions which its airlines operate in as well as to maintain and grow its market share in the Asia Pacific region. The New Aviation Group also intends to increase its revenue and grow its market share in Cambodia through its latest airline, 'AirAsia Cambodia'.*

- *Further growth in revenue from ancillary services to enhance the airlines' financial performance, through pricing optimisation and automation, product innovation and marketing expansion, personalised marketing and strategic collaborations and partnerships with the AirAsia Group to increase cross-selling opportunities.*

- *The New Aviation Group expects to also maintain an expanded portfolio of new-generation aircraft comprising both narrowbody and widebody aircraft types, namely the A321neo, the A321LR, the A321XLR and A330neo, supported by the New Aviation Group's aircraft orderbook totalling 396 aircraft, with delivery scheduled between 2024 and 2035. Within the next 3 years, the New Aviation Group expects to take delivery of a total of 34 aircraft from its orderbook, all of which are expected to be on operating* *leases by way of sale-and-leaseback arrangements with aircraft lessors. In addition, the New Aviation Group also expects to take delivery of 10 A321neo aircraft from an identified lessor's aircraft orderbook by way of operating leases in 2025.*

The future growth and success of the New Aviation Group will be backed by an established AirAsia Ecosystem. The New Aviation Group will gain stronger leverage and bargaining power to secure continuous usage of the "AirAsia" brand which is an established brand in the aviation industry, and to secure continuous collaborations and comprehensive support services from the AirAsia Ecosystem. The New Aviation Group will also have the requisite capacity for its growth ambitions. With all of its upcoming aircraft delivery structured under operating leases by way of sale-and-leaseback arrangements with lessors, the New Aviation Group would gain the flexibility in its future fleet management and utilisation, without the risks and costs of ownership, effectively contributing to the lean and savvy nature of its business model.

In terms of financing for the New Aviation Group's aviation businesses, the Proposed Private Placement is expected to provide necessary funds to the New Aviation Group in addition to its internally generated funds and externally sourced financing.

In view of the above and barring any unforeseen circumstances, our Board is optimistic of the prospects of the Target Companies and the New Aviation Group."

WYNCORP's comments
We take cognisance of the anticipated favourable industry outlook and prospects of the aviation industry, particularly over the medium and long term; and noted that the New Aviation Group is expected to be well-positioned to capitalise on the anticipated recovery of air travel through the following: - (i) the airlines within the New Aviation Group will focus on increasing their flight frequencies and expand their fleet of aircraft accordingly to capture the growing demand for air travel and maintain their positions as one of the market leaders in the respective regions where the airlines operate in; (ii) increase the passenger volume which will then contribute to the growth in its market share, in line with the growing prospects of the aviation industry. The New Aviation Group also intends to increase its revenue and grow its market share in Cambodia through its latest airline, 'AirAsia Cambodia' which has commenced operation in May 2024; and (iii) achieve further growth in revenue from ancillary services to enhance the airlines' financial performance, through pricing optimisation and automation, product innovation and marketing expansion, personalised marketing and strategic collaborations and partnerships with the AirAsia to increase cross-selling opportunities.

Premised on the above, we are of the view that the Proposed Acquisitions are generally expected to contribute positively to the Company particularly over the medium and long term, and accordingly, the Proposed Acquisitions are deemed <u>fair</u> and <u>reasonable</u> and <u>not detrimental</u> to the interest of the non-interested Shareholders of AAX.

Notwithstanding the positive and encouraging industry outlook and prospects, we wish to highlight that all businesses are subject to uncertainties and risks, some of which are not fully within the control of the Company. Accordingly, we advise the non-interested Shareholders of AAX to take note of, and carefully consider, the risks as set out in Section 10, Part A of the Circular and further discussed in Section 7.6 of this IAL.

7.6 Risks of the Proposed Acquisitions

In evaluating the Proposed Acquisitions, the non-interested Shareholders of AAX are advised to consider carefully the risk factors as set out in Section 10, Part A of the Circular before voting on the resolutions pertaining to the Proposed Acquisitions at the forthcoming EGM.

In view that AAX Group and the Target Companies are principally involved in the aviation industry, we are of the view that the business risk profile of AAX Group **will not change significantly** upon completion of the Proposed Acquisitions, especially for risk factors inherent in the aviation industry.

Nevertheless, taking into consideration the above and the differences between the Target Companies and AAX Group in terms of, amongst others, the scale of business operations (including type and number of aircraft operated, fleet expansion plan, type of services provided and flight destinations/routes serviced), operational and financial requirements as well as geographical locations of business operations, AAX Group may assume increased exposure to existing business risks related to the aviation industry as well as additional risks arising from acquisition of the Target Companies pursuant to the Proposed Acquisitions.

In addition, we wish to draw the attention of the non-interested Shareholders of AAX to the following risk factors as disclosed in Section 10, Part A of the Circular: -

7.6.1 Non-completion risk

"The completion of the Proposals and Proposed Granting of Subscription Options is subject to, amongst others, the approvals as set out in Section 13, Part A of this Circular being obtained.

In addition, the completion of the Proposed Acquisitions and the Proposed Granting of Subscription Options is subject to, amongst others, all the conditions precedent in the relevant agreements as set out in Section 3.1, Appendix II(A) of this Circular and Section 3.1, Appendix II(B) of this Circular and Section 2 of Appendix III of this Circular being fulfilled. There is no assurance that the said conditions precedent will be fulfilled or that the parties to the relevant agreements will be able to fulfil their respective obligations under the agreements within the timeframe stipulated therein.

In respect of the Proposed Private Placement, there is no assurance that the Placement Shares will be fully subscribed by investors.

In the event that any of the Proposals or Proposed Granting of Subscription Options does not proceed to completion, our Company will not be able achieve the objectives and benefits of the respective proposals as set out in Section 8, Part A of this Circular.

To mitigate such risk, our Company will take all necessary steps and reasonable efforts to obtain the requisite approvals and to ensure that the conditions precedent in the relevant agreements, which are within the reasonable control of our Company, are fulfilled within the timeframe stipulated in the agreements and duly perform our Company's obligations under the agreements in order to complete the Proposals and Proposed Granting of Subscription Options in a timely manner."

WYNCORP's comments
We are of the view that this risk is inherent in nature and customary for transactions of similar nature. We take note that the Company will take all necessary steps and reasonable efforts to ensure that the conditions precedent in the SSPAs in respect of the Proposed Acquisitions, which are within the reasonable control of the Company, are satisfied or waived (as the case may be), within the timeframe stipulated in the SSPAs and duly perform the obligations under the SSPAs; to complete the Proposed Acquisitions in a timely manner. In addition, we take note that as provided within the SSPAs, Capital A shall use its reasonable endeavours to procure the satisfaction of conditions precedent which are within its control such that those conditions precedent are satisfied within the timeframe stipulated in the SSPAs.

7.6.2 Investment risk

"There is no assurance that the anticipated benefits and synergies arising from the Proposed Acquisitions as set out in Section 8.3, Part A of this Circular will be realised or that the New Aviation Group will be able to generate sufficient returns to offset the dilutive effects to our Shareholders arising from the issuance of Consideration Shares. There is also no assurance that the projected financial performance of the Target Companies will be achieved after the completion of the Proposed Acquisitions.

The aviation businesses of the Target Companies and the New Aviation Group are closely correlated with the level of inbound and outbound travelling and tourism activities at both domestic and international levels and are subject to risks inherent in the aviation industry including: -

(i) changes in the general economic, social and political climate of the country;

(ii) changes in consumers' spending power, lifestyle and preferences for travel destinations;

(iii) natural disasters (e.g. earthquake, flood, tsunami, typhoon and volcanic eruption), outbreak of diseases and epidemics as well as weather conditions in the locality, country or region;

(iv) threats of terrorism, acts of sabotage, strikes, riots, geopolitical tensions, social unrest and declaration of war;

(v) changes in legislation and government policies;

(vi) negative reviews or adverse publicity affecting the reputation of the airlines, ultimately leading to negative public perception and loss of consumers' confidence towards the airlines;

(vii) increase in travelling costs as a result of higher airline operating costs arising from, amongst others, escalating fuel prices and depreciating local currencies;

(viii) ability to renew airline operator certificates and other relevant approvals / certifications to comply with the applicable regulations;

(ix) increased competition from other existing or new low-cost airlines;

(x) loss of key senior management and ability to hire replacement; and

(xi) ability to secure new aircraft deliveries for fleet replacement and expansion plans.

Nevertheless, our Group has exercised due care in considering the potential risks and benefits associated with the Proposed Acquisitions and our Board believes that the Proposed Acquisitions are critical to the long-term sustainability of our Group as we have been leveraging on the "AirAsia" brand and AirAsia Ecosystem since the commencement of our Group's business. Our Board also believes that the integration risk is low in view that our Group and the Target Companies have been operating within the same AirAsia Ecosystem."

WYNCORP's comments
We are of the view that this risk is inherent in nature and customary for transactions of similar nature.

7.6.3 Projection risk

"The AAAGL Purchase Consideration and AAB Purchase Consideration were arrived at after taking into consideration, amongst others, the range of valuation for the entire equity interests in the Target Companies based on the valuation undertaken by Deloitte. In arriving at the valuation of the Target Companies, the Valuer has considered a number of valuation approaches and adopted the DCF method of valuation as the primary method for the valuation of the AOCs, namely AAB, TAA, PAA and IAA using the 5-year financial projections of the said AOCs from 1 January 2024 to 31 December 2028 together with the underlying bases and assumptions.

There is no assurance that the AOCs will be able to achieve the projected results in the future and that the key underlying bases and assumptions used in arriving at the valuation of the Target Companies will materialise as planned. In the event that the AOCs are unable to achieve the projected results in the future and/or if any of the key underlying bases and assumptions used in arriving at the valuation of the Target Companies does not materialise as planned, the valuation of the Target Companies may deteriorate and the New Aviation Group may be required to recognise an impairment loss on the carrying amount of its investments in the Target Companies (including any goodwill and intangible assets arising from the Proposed Acquisitions) and this may adversely affect the financial performance and financial position of the New Aviation Group.

In mitigating such risk and to ensure smooth daily operations including the execution of future plans and business strategies under the enlarged aviation group, a centralised leadership is intended to be established under Bo Lingam as the Group Chief Executive Officer of the New Aviation Group and he will be assisted by a team of experienced key senior management team with extensive experience in the aviation industry and in-depth operational knowledge of the respective airlines. In addition, it is worth noting that the Valuer has assigned additional risk premiums to the discount rates adopted in its DCF method to account for uncertainties and risks attributable to the cash flow projections for the respective AOCs."

WYNCORP's comments
We are of the view that this risk is inherent in nature and customary for transactions of similar nature where purchase consideration is benchmarked to future earnings and range of valuation appraised on income approach. The valuation approach adopted by Deloitte is appropriate in this context, and commonly-applied in practice. As the Proposed Acquisitions do not constitute a significant change in business direction with AAX Group being presently involved in the airline business and aviation industry, and the valuation appraised by Deloitte has not factored in any elevated synergistic benefits that may potentially accrue to the enlarged aviation group upon completion of the Proposed Acquisitions which when materialise, stand to enhance the value of the enlarged aviation group; we are of the view that the exposure level of this risk may be further contained particularly a centralised leadership is intended to be established under Bo Lingam and assisted by a team of experienced key senior management personnel with extensive experience in the aviation industry and in-depth operational knowledge of the respective airlines.

7.6.4 Goodwill and impairment risk

"The Proposed Acquisitions are expected to give rise to goodwill to be recognised, the amount of which will depend on the fair value of the Target Companies' identifiable assets acquired (including any intangible assets identified) and liabilities assumed upon completion of the Proposed Acquisitions.

The identifiable assets and liabilities of the Target Companies will initially be recorded in the New Aviation Group's books at their provisional fair values as at the acquisition date pending the conclusion of a purchase price allocation exercise in accordance with Malaysian Financial Reporting Standards 3 Business Combinations. Although a preliminary assessment has been conducted, the final outcome of the purchase price allocation exercise cannot be ascertained at this juncture. Any fair value adjustment to the identifiable assets and liabilities arising therefrom may affect the goodwill and financial position of the New Aviation Group. In addition, any impairment on the carrying amount of the investments in the Target Companies (including any goodwill and intangible assets arising from the Proposed Acquisitions) and amortisation of any intangible assets identified from the Proposed Acquisitions may affect the financial performance and financial position of the New Aviation Group.

For illustrative purposes, as set out in the pro forma consolidated statement of financial position of our Group as at 31 December 2023 in Appendix VIII of this Circular, the goodwill and intangible assets upon completion of the Proposed Acquisitions are RM10,090.74 million and RM2,430.84 million respectively, based on the assumptions and parameters stated therein.

Notwithstanding the above, the AAAGL Purchase Consideration and AAB Purchase Consideration fall within the range of valuation for the entire AAAGL Equity Interest and AAB Equity Interest as at 31 December 2023 respectively based on the valuation conducted by Deloitte."

WYNCORP's comments
We take note that the Proposed Acquisitions are expected to give rise to goodwill to be recognised, the amount of which will depend on the fair value of AAAGL's and AAB's identifiable assets acquired (including any intangible assets identified) and liabilities assumed upon completion of the Proposed Acquisitions. Any fair value adjustment to the identifiable assets and liabilities arising therefrom may affect the goodwill and financial position of the enlarged aviation group. Any impairment on the carrying amount of the investments in AAAGL and AAB (including any goodwill and intangible assets arising from the Proposed Acquisitions) and amortisation of any intangible assets identified from the Proposed Acquisitions may affect the financial performance and financial position of the enlarged aviation group. We are of the view that this risk is inherent in nature and customary for transactions of similar nature. This risk has been adequately considered, taking into consideration: - (i) the purchase considerations for the Proposed Acquisitions are justified after taking into consideration the rationale and benefits of the Proposed Acquisitions as set out in Section 8.3 of Part A of the Circular, the outlook of the aviation industry and prospects of the Target Companies and the New Aviation Group as set out in Section 9 of Part A of the Circular, and the purchase considerations fall within the range of valuation appraised by Deloitte; (ii) the range of valuation has not factored in any elevated synergistic benefits that may potentially accrue to the enlarged aviation group upon completion of the Proposed Acquisitions which when materialise, stand to enhance the value of the enlarged aviation group which in turn, would help to reduce the occurrence and/or impact of impairment risk; and (iii) the Proposed Acquisitions do not constitute a significant change in business direction with AAX Group being presently involved in the airline business and aviation industry, and a centralised leadership is intended to be established under Bo Lingam and assisted by a team of experienced key senior management personnel with extensive experience in the aviation industry and in-depth operational knowledge of the respective airlines; which would help to enhance the likelihood and chances of the enlarged aviation group achieving the projected financial performance and the elevated synergistic benefits.

7.6.5 Risk of triggering PN17

"The outbreak of the global COVID-19 pandemic had created significant challenges for the aviation industry. As a result, the financial performance and financial position of Capital A was greatly impacted in an adverse manner. On 7 January 2022, Capital A was classified as a PN17 issuer as it triggered the prescribed criteria pursuant to Paragraph 8.04 of the Listing Requirements and Paragraphs 2.1(a) and 2.1(e) of PN17 as set out below: -

(i) Paragraph 2.1(a) – the shareholders' equity of the listed issuer on a consolidated basis is 25% or less of the share capital (excluding treasury shares) of the listed issuer and such shareholders' equity is less than RM40 million; and

(ii) Paragraph 2.1(e) – the auditors have highlighted a material uncertainty related to going concern or expressed a qualification on the listed issuer's ability to continue as a going concern in the listed issuer's latest audited financial statements and the shareholders' equity of the listed issuer on a consolidated basis is 50% or less of share capital (excluding treasury shares) of the listed issuer.

As at the LPD, Capital A is still classified as a PN17 issuer whereas our Company has been uplifted from being classified as a PN17 issuer on 22 November 2023.

There is no assurance that our Company will not trigger the prescribed criteria pursuant to Paragraph 8.04 of the Listing Requirements and Paragraph 2 of PN17 and be classified as a PN17 issuer again following the completion of the Proposed Acquisitions in view that the Target Companies were the major contributors to the decline in financial performance and financial position of Capital A during the COVID-19 pandemic period.

As at 31 December 2023, the AAAGL Group reported net current liabilities of RM9,127.04 million and a capital deficiency of RM5,187.04 million whereas the AAB Group reported a capital deficiency of RM1,504.69 million. These conditions may affect the ability of the Target Companies to meet their financial obligations as and when they fall due. For further information on the financial performance and financial position of the Target Companies for the past 3 financial years, please refer to the accountants' reports of AAAGL and AAB as set out in Appendix IX of this Circular and Appendix X of this Circular respectively.

Barring any unforeseen circumstances, our Board is optimistic of the prospects of the Target Companies and the New Aviation Group. With the respective industry track record of each airline to be housed under the New Aviation Group, as well as the synergistic benefits from the AirAsia Ecosystem and competitive strengths of the New Aviation Group, the enlarged aviation group is well-positioned to capitalise on the anticipated recovery of air travel moving forward.

In addition, our Company will undertake the Proposed Private Placement of RM1,000.00 million to strengthen our financial position amidst undertaking the Proposed Acquisitions. Furthermore, one of the conditions precedent in the SSPAs requires that each of the Target Companies (together with their respective group of companies) does not incur or record an aggregate loss exceeding RM50.00 million during the 3-month period immediately preceding the respective dates of completion of the Proposed AAAGL Acquisition and Proposed AAB Acquisition."

WYNCORP's comments
We are of the view that this risk is inherent in this context, but has been adequately considered taking into consideration the following: - (i) the Proposed Acquisitions is conditional upon the Proposed Private Placement of RM1,000.00 million, which would help to strengthen the financial position of AAX prior to undertaking the Proposed Acquisitions; (ii) the SSPAs provide that there should be no AAAGL Material Adverse Change and AAB Material Adverse Change to AAAGL Group and AAB Group respectively; (iii) the SSPAs provide that AAAGL Group and AAB Group respectively and individually, shall not incur or record an aggregate loss exceeding RM50.00 million during the 3-month period immediately preceding the respective dates of completion of the Proposed Acquisitions; (iv) the AAAGL Purchase Consideration, which is to be satisfied entirely via allotment and issuance of Consideration Shares, would further enhance the share capital of AAX upon completion of the Proposed Acquisitions; (v) the recovery of AAAGL Group's and AAB Group's airline business operations, and the anticipated financial performance of the enlarged aviation group, are backed by the relatively positive prospects and industry outlook; and (vi) the enlarged aviation group is expected to achieve elevated synergistic benefits and additional cost savings through centralised management and procurement, potential enhancement to the overall credit rating and record of the enlarged aviation group, and increased flexibility in fleet management and utilisation; which when materialise, stand to contribute positively to the financial performance of the enlarged aviation group.

7.6.6 Limitation of liabilities

"Pursuant to the SSPAs, there are certain pre-determined minimum thresholds in respect of indemnities by Vendor (as set out in Section 6 of Appendix II(A) of this Circular and Section 6 of Appendix II(B) of this Circular) and limitation of liabilities in respect of breach of warranties (as set out in Section 7 of Appendix II(A) of this Circular and Section 7 of Appendix II(B) of this Circular).

In the event that a claim by the Purchaser against the Vendor arising from, amongst others, unfavourable outcome of litigation cases, crystallisation of contingent liabilities and additional tax liabilities to be paid by the Target Companies, is limited or restricted due to pre-determined minimum thresholds and limitation of liabilities as abovementioned or the Vendor is unable to fulfil its obligations in respect of such claim, this may have a material adverse effect on the financial performance and financial position of the New Aviation Group.

As at the date of this Circular, the due diligence exercise on the Target Companies has been completed. Notwithstanding that, the SSPAs may still be terminated at any time prior to the completion of the Proposed Acquisitions in the event that the Purchaser becomes aware that any of the Vendor's warranties was untrue or inaccurate, any inconsistency with the warranties given by the Vendor is discovered, an AAAGL Material Adverse Change (as defined under Note (1) to Section 5(iii) of Appendix II(A) of this Circular) / AAB Material Adverse Change (as defined under Note (1) to Section 5(iii) of Appendix II(B) of this Circular) has occurred or any other breach on the part of the Vendor of the terms of the SSPAs has occurred."

WYNCORP's comments
We are of the view that this risk is inherent in this context, but has been adequately considered taking into consideration the following: - (i) the SSPAs may still be terminated at any time prior to the completion of the Proposed Acquisitions in the event that AAX (as the Purchaser) becomes aware that any of the Vendor's warranties was untrue or inaccurate, any inconsistency with the warranties given by the Vendor is discovered, an AAAGL Material Adverse Change (as defined under Note (1) to Section 5(iii) of Appendix II(A) of the Circular) / AAB Material Adverse Change (as defined under Note (1) to Section 5(iii) of Appendix II(B) of the Circular) has occurred or any other breach on the part of the Vendor of the terms of the SSPAs has occurred; and (ii) the limitation of liability would not apply to any AAAGL / AAB Claim which arises or is increased or is delayed as the consequence of fraud or wilful concealment by either party to the SSPAs or any of its directors, officers, employees, agents, advisers, representatives or successors in title of such party. This safeguards the right to claim damages of the non-defaulting party, regardless of materiality of the sum, in the event of fraud and wilful concealment.

7.6.7 Financing and default risk

"Where necessary, the New Aviation Group may seek equity and/or debt financing for its future funding requirements. The New Aviation Group's ability to obtain such financing and the cost of financing will depend on numerous factors, such as general economic and market conditions, interest rates, credit availability from the banks and/or other lenders, any restriction imposed by the government as well as political, social and economic conditions. There is no assurance that the necessary financing will be available in amounts or on terms and conditions acceptable to the New Aviation Group.

In respect of debt financing, the New Aviation Group is highly geared and could potentially be exposed to risk of default and fluctuation in interest rates on the financing obtained. As set out in Section 11.3, Part A of this Circular, our Group's pro forma total borrowings, debentures and lease liabilities as at 31 December 2023 is RM24,492.69 million (gearing ratio of 42.60 times) upon completion of the Proposed Acquisitions. An increase in financing costs may adversely affect the New Aviation Group's financial performance and its ability to service the financial obligations.

In the event that the New Aviation Group is unable to generate sufficient cash flows to service principal repayments and/or interest costs in respect of any debt financing, this will constitute an event of default, and this may trigger cross default provisions of other financing facilities. In such circumstances, the affected lenders / financiers of the New Aviation Group may demand for an immediate repayment of outstanding amounts and withdraw financing facilities which would otherwise be available for the New Aviation Group.

The New Aviation Group will continuously monitor and review its debt portfolio, which takes into consideration the New Aviation Group's gearing level, interest costs and cash flows. Where necessary, the New Aviation Group may refinance its debt obligations to extend the tenure and/or to obtain more favourable financing terms. Further, as the New Aviation Group reactivates more aircrafts and ramps up its operations in line with the revival and increase of air travel demand after the COVID-19 pandemic, its financial performance and financial position are expected to strengthen, and this will also mitigate the financing and default risk."

WYNCORP's comments
We are of the view that this risk is inherent in this context, but has been adequately considered taking into consideration the following: - (i) the Proposed Acquisitions is conditional upon the Proposed Private Placement, which would provide the enlarged aviation group with additional cash reserves for its future plans and business strategies, repayment of borrowings, as well as working capital requirements; (ii) the Proposed Acquisitions do not involve any actual cash outlays, as the AAAGL Purchase Consideration is to be satisfied entirely via allotment and issuance of Consideration Shares, whilst the AAB Purchase Consideration is to be satisfied entirely via Debt Settlement; (iii) lease liabilities (which account for a substantial portion of the Group's pro forma total borrowings, debentures and lease liabilities upon completion of the Proposed Acquisitions) are mainly relating to leases of aircraft and spare engines, which are backed by corresponding right-of-use assets; (iv) AAAGL Group and AAB Group have been able to sustain their operations over the years. For information purposes, both AAAGL Group and AAB Group generated positive cash flows from operating activities for the FYE 31 December 2023 and recorded positive cash and cash equivalents at the end of the FYE 31 December 2023; and (v) the projected future revenue growth of AAAGL Group and AAB Group, backed by the relatively positive prospects and industry outlook, are expected to further enhance the ability of the New Aviation Group to meet its future obligations in relation to the repayment of borrowings, debentures and lease liabilities.

7.6.8 Foreign exchange risk

"A portion of the airlines' revenue and costs are exposed to foreign exchange risks, including seat sales, freight services, fuel costs, maintenance, repair and overhaul expense and rental expense. Hence, any fluctuation in foreign exchange rates will have an impact to the financial performance of the airlines, e.g. an appreciation of USD against RM will result in the airlines incurring higher fuel costs, maintenance, repair and overhaul expense and rental expense.

The management of the New Aviation Group will manage the foreign currency exposures, to the extent possible, by natural hedges that arise when payments for foreign currency payables are matched against collections from receivables denominated in the same foreign currency or whenever possible, by intragroup arrangements and settlements. Where necessary, financial instruments such as foreign currency forwards may be entered into to hedge foreign exchange risk."

WYNCORP's comments
We are of the view that this risk is inherent and customary due to the industry and business nature, of which AAX Group is similarly and presently exposed to, where the enlarged aviation group upon completion of the Proposed Acquisitions would inevitably be exposed to in continuity.

7.6.9 Risk of reliance on "AirAsia" brand (including "AirAsia X" brand) and AirAsia Ecosystem

"The airlines to be housed under the New Aviation Group rely on the strength of "AirAsia" brand (including "AirAsia X" brand) to market and promote their seat sales and ancillary products and services. The New Aviation Group does not and will not own the "AirAsia" brand[(1)] following the completion of the Proposed Acquisitions.

Note: -

(1) The "AirAsia" brand is currently owned by Brand AA Sdn Bhd, a wholly-owned subsidiary of Capital A. As announced by Capital A on 28 February 2024, Capital A is undertaking a proposed business combination involving its equity interest in Brand AA Sdn Bhd with, amongst others, Aetherium Acquisition Corp, a special purpose acquisition corporation listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) in the US to unlock the value of Brand AA Sdn Bhd.

Instead, pursuant to the MBLA, AAAGL was granted the exclusive right to use the trade name and livery of the "AirAsia" brand for its aviation related business, including the right to sub-license such rights to its affiliates (including AAB, TAA, PAA, IAA and CAA). The MBLA shall remain in force for 10 years from 1 January 2023 and upon expiry of the initial term of the MBLA, the MBLA shall be automatically extended for a period of 10 years, provided that the MBLA has not been lawfully terminated by reason of breach or default in accordance with the terms and provisions of the MBLA.

In the event that the MBLA is not renewed at its expiry or is terminated, the New Aviation Group will not be able to continue leveraging on the "AirAsia" brand and this is expected to have a material adverse effect on the enlarged aviation group's financial performance. Further, any deterioration to the brand recognition may also have an adverse effect on the business, operations and financial performance of the airlines.

In addition, the airlines also rely on the AirAsia Ecosystem which helps to support the airlines' businesses, including AirAsia Group's online sales channels, maintenance, repair and overhaul services, digital payment and financial services, cargo and logistics services, ground handling services, in-flight meal services and a shared services centre. Losing such benefits of comprehensive support services from the AirAsia Ecosystem, the New Aviation Group may face challenges in running the operations of the airlines effectively and in a cost-efficient manner.

In mitigating such risk, a centralised leadership is intended to be established under Bo Lingam as the Group Chief Executive Officer of the New Aviation Group and he will be assisted by a team of experienced key senior management team with extensive experience in the aviation industry and in-depth operational knowledge of the respective airlines. Upon completion of the Proposed Acquisitions, the management of the New Aviation Group will continue to maintain good working relationship with other entities within the AirAsia Ecosystem to preserve the benefits and synergies derived therefrom."

WYNCORP's comments
We are of the view that this risk is associated with the prevailing commercial and business arrangements which are expected to subsist regardless of the Proposed Acquisitions, of which AAX Group is similarly and presently exposed to, where the enlarged aviation group upon completion of the Proposed Acquisitions would inevitably be exposed to in continuity.

7.6.10 Foreign investment risk

"The investment in the AAAGL Group is subject to foreign investment risk. The ability of foreign entities within the AAAGL Group to repatriate profits will depend largely on the relevant legislations or policies relating to the repatriation of profits prevailing at the point of repatriation. In the event of any changes in the foreign investment policies in Labuan, Thailand, the Philippines and Indonesia which restrict or prohibit foreign investments in the respective foreign entities or repatriation of profits from these countries, there may be a material and adverse impact to the New Aviation Group.

The expert's report on policies on foreign investments, taxation and repatriation of profits under the relevant laws of Labuan, Malaysia, Thailand, the Philippines and Indonesia is set out in Appendix XIII of this Circular.

In addition, please refer to Appendix XIV of this Circular for the legal opinion on ownership of title to the securities or assets and the enforceability of agreements, representations and undertakings given by foreign counter-parties and other relevant legal matters under the relevant laws of Labuan, Malaysia, Thailand, the Philippines and Indonesia."

WYNCORP's comments
We are of the view that this risk is inherent and customary for entities with foreign investment.

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7.6.11 Dilution of existing shareholdings of the Shareholders

"The issuance of Placement Shares, Consideration Shares and Subscription Shares will have a dilutive impact to the existing shareholdings of our Shareholders in AAX, as illustrated in the table below: -

		Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share				Pro forma B: Based on an illustrative issue price of RM1.13 per Placement Share			
			Existing shareholdings of our Shareholders				Existing shareholdings of our Shareholders		
		Total no. of issued Shares	No. of Shares	%	% of dilution	Total no. of issued Shares	No. of Shares	%	% of dilution
(I)	As at the LPD	447,072,803	447,072,803	100.00		447,072,803	447,072,803	100.00	
(II)	Based on (I) and after the issuance of Placement Shares pursuant to the Proposed Private Placement	1,447,072,803	447,072,803	30.89	(69.11)	1,332,028,555	447,072,803	33.56	(66.44)
(III)	After (II) and the issuance of Consideration Shares pursuant to the Proposed AAAGL Acquisition and Proposed Distribution by Capital A	3,754,765,110	447,072,803	11.91	(88.09)	3,639,720,862	447,072,803	12.28	(87.72)
(IV)	After (III) and assuming full subscription of the Subscription Shares	4,205,336,923	447,072,803	10.63	(89.37)	4,076,487,365	447,072,803	10.97	(89.03)
(V)	After (IV) and assuming full exercise of the Warrants	4,428,873,324	670,609,204	15.14	(84.86)	4,300,023,766	670,609,204	15.60	(84.40)

Based on the above, upon the issuance of Placement Shares, Consideration Shares and Subscription Shares, the existing shareholdings of our Shareholders in AAX will be diluted by 89.37% to 10.63% under Pro forma A (Pro forma B: diluted by 89.03% to 10.97%).

The Proposed Issuance of Free Warrants serves to mitigate the dilutive impact from the issuance of Placement Shares, Consideration Shares and Subscription Shares as there will be no Warrant to be issued in respect of the Placement Shares, Consideration Shares and Subscription Shares. Upon full exercise of the Warrants, the existing shareholdings of our Shareholders in AAX (including new Shares from the exercise of the Warrants) will increase to 15.14%, representing an effective dilution of 84.86% from your existing shareholdings in AAX under Pro forma A (Pro forma B: increase to 15.60%; effective dilution of 84.40%).

Notwithstanding that the issuance of Placement Shares, Consideration Shares and Subscription Shares will result in a dilutive impact to your existing shareholdings in AAX, you should note that: -

(i) the Proposed Private Placement is undertaken to strengthen the financial position of our Group and to raise funds of RM1,000.00 million for the New Aviation Group's aviation businesses. Furthermore, the Placement Shares are intended to be issued at the prevailing market price of our Shares at the price-fixing date of the Placement Shares, with a discount of not more than 15% and in any event, the issue price shall not be lower than the minimum issue price of RM1.00 per Placement Share;

(ii) the Proposed Acquisitions present an opportunity to you to own a part of the New Aviation Group and to bear the risks and rewards associated with ownership of the enlarged aviation group amidst the anticipated recovery of international air traffic post COVID-19 in addition to other rationale and benefits of the Proposed Acquisitions as set out in Section 8.3, Part A of this Circular. With the respective industry track record of each airline to be housed under the New Aviation Group, as well as the synergistic benefits from the AirAsia Ecosystem and competitive strengths of the New Aviation Group, the enlarged aviation group is well-positioned to capitalise on the anticipated recovery of air travel moving forward;

(iii) the Consideration Shares are issued to fully satisfy the AAAGL Purchase Consideration (which is fair and justifiable as explained in Section 4.3, Part A of this Circular) at an agreed issued price of RM1.30 each which reflects the prevailing market prices of our Shares prior to the signing of the SSPAs;

(iv) the issuance of Subscription Shares is a form of fund-raising exercise for our Group in the event that the Subscriber exercises the Subscription Options to subscribe for Subscription Shares. As set out in Section 7.3, Part A of this Circular, the mechanism under the Proposed Granting of Subscription Options allows our Company to issue any Subscription Shares at the prevailing market price of our Shares during the 24-month acceptance period and without any discount. Hence, this mechanism is expected to result in less dilution to our Shareholders as compared to the pricing mechanism of the Previous Subscription Option; and

(v) the issue prices of the Placement Shares, Consideration Shares and Subscription Shares are / are expected to be higher than the unaudited consolidated NA of AAX as at 30 June 2024 of RM0.46 per Share."

WYNCORP's comments
We are of the view that this risk is inherent in nature and customary for transactions of similar nature. This risk has been adequately considered, taking into consideration that the Proposed Acquisitions do not involve any actual cash outlays, as the AAAGL Purchase Consideration is to be satisfied entirely via allotment and issuance of Consideration Shares, whilst the AAB Purchase Consideration is to be satisfied entirely via Debt Settlement. Such arrangement appears to be appropriate and justifiable, as it allows AAX to take control of AAAGL Group and AAB Group and form the enlarged aviation group expediently whilst preserving the cash flows and capacity / ability to secure additional financing for the future expansion and business needs of the New Aviation Group.

Premised on the above, we are of the view that risks of the Proposed Acquisitions have been adequately considered. We noted that the non-interested Directors have, and will continue to, exercise due care in considering the potential risks and benefits associated with the Proposed Acquisitions and that the long-term benefits are expected to outweigh the cost and associated risks.

We wish to highlight that notwithstanding any mitigating measures that may be put in place to limit and manage the abovementioned risks, there can be no assurance that the abovementioned risks will not materialise and give rise to material and adverse impact on the business operations, financial performance, financial position and the prospects of the enlarged aviation group thereon.

Non-interested Shareholders of AAX are advised to take note of the indicated risks of the Proposed Acquisitions, which are not exhaustive; as well as the mitigating measures / factors, before deciding on how to vote on the Proposed Acquisitions at the forthcoming EGM of the Company.

7.7 Effects of the Proposed Acquisitions

In evaluating the Proposed Acquisitions, we have taken note of the effects of the Proposed Acquisitions as set out in Section 11, Part A of the Circular.

7.7.1 Issued share capital

We noted that the Proposed AAB Acquisition will not have any effect on the issued share capital of the Company, as the Proposed AAB Acquisition does not involve any issuance of new Shares.

We further noted that the Proposed AAAGL Acquisition will result in an increase in the issued share capital of the Company, amounting to approximately RM3,484.62 million comprising 2,307,692,307 Consideration Shares in satisfaction of the AAAGL Purchase Consideration.

For illustrative purposes only, the pro forma effects of Proposed Private Placement (which the Proposed Acquisitions are conditional upon) and Proposed AAAGL Acquisition on the issued share capital of the Company are as follows: -

	Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share		Pro forma B: Based on an illustrative issue price of RM1.13 per Placement Share	
	No. of Shares	Share capital (RM'000)	No. of Shares	Share capital (RM'000)
As at the LPD	447,072,803	51,029	447,072,803	51,029
Placement Shares to be issued pursuant to the Proposed Private Placement	1,000,000,000	1,000,000[(1)]	884,955,752	1,000,000[(2)]
	1,447,072,803	1,051,029	1,332,028,555	1,051,029
Consideration Shares to be issued pursuant to the Proposed AAAGL Acquisition	2,307,692,307	3,046,154[(3)]	2,307,692,307	3,046,154[(3)]
Issued share capital after the Proposed Private Placement and Proposed Acquisitions	**3,754,765,110**	**4,097,183**	**3,639,720,862**	**4,097,183**

Notes: -

(1) Based on the minimum issue price of RM1.00 per Placement Share as determined by the Company.

(2) Based on an illustrative issue price of RM1.13 per Placement Share, which represents a discount of approximately 14.39% to the 5-day VWAP of the Company's Shares up to and including the LPD of RM1.32.

(3) Based on an illustrative price of RM1.32 per Consideration Share, using the 5-day VWAP of the Company's Shares up to and including the LPD of RM1.32 as a proxy of the fair value of the AAAGL Purchase Consideration.

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7.7.2 Substantial Shareholder's shareholdings

We noted that the Proposed AAB Acquisition are not expected to have any effect on the substantial Shareholders' shareholding in the Company. The pro forma effects of the Proposed Private Placement (which the Proposed Acquisitions are conditional upon) and Proposed AAAGL Acquisition on the substantial Shareholders' shareholding in the Company based on the Register of Substantial Shareholders of the Company as at 2 September 2024 are as follows: -

Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share

	As at 2 September 2024				A(I) After the AAX Stake Transfer			
	Direct		Indirect		Direct		Indirect	
Substantial Shareholders	No. of Shares	%[1]	No. of Shares	%[1]	No. of Shares	%[1]	No. of Shares	%[1]
Tan Sri Tony Fernandes	11,158,722	2.50	131,033,136[2]	29.31	11,158,722	2.50	131,033,136[4]	29.31
Datuk Kamarudin	37,070,993	8.29	131,033,136[2]	29.31	37,070,993	8.29	131,033,136[4]	29.31
AAB	57,072,850	12.77	-	-	-	-	-	-
Capital A	-	-	57,072,850[3]	12.77	57,072,850	12.77	-	-
Tune Group Sdn Bhd	73,960,286	16.54	-	-	73,960,286	16.54	-	-
Tune Live	-	-	-	-	-	-	-	-
Tune Air	-	-	-	-	-	-	-	-
Capital A and PACs	**179,262,851**	**40.10**			**179,262,851**	**40.10**		
Public shareholding spread (%)	**59.90**				**59.90**			

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	A(II) After A(I) and the Proposed Private Placement				A(III) After (II) and the Proposed AAAGL Acquisition and Proposed Distribution by Capital A			
	Direct		Indirect		Direct		Indirect	
Substantial Shareholders	**No. of Shares**	**%[(5)]**	**No. of Shares**	**%[(5)]**	**No. of Shares**	**%[(6)]**	**No. of Shares**	**%[(6)]**
Tan Sri Tony Fernandes	11,158,722	0.77	131,033,136[(4)]	9.06	11,944,579	0.32	1,149,360,456[(7)]	30.61
Datuk Kamarudin	37,070,993	2.56	131,033,136[(4)]	9.06	37,856,850	1.01	1,149,360,456 [(7)]	30.61
AAB	-	-	-	-	-	-	-	-
Capital A	57,072,850	3.95	-	-	672,457,465	17.91	-	-
Tune Group Sdn Bhd	73,960,286	5.11	-	-	73,960,286	1.97	-	-
Tune Live	-	-	-	-	200,000,800	5.33	-	-
Tune Air	-	-	-	-	202,941,905	5.40	-	-
Capital A and PACs	**179,262,851**	**12.39**			**1,199,161,885**	**31.94**		
Public shareholding spread (%)	**87.61[(8)]**				**68.06**			

Notes: -

(1) *Based on 447,072,803 issued Shares as at the 2 September 2024.*

(2) *Deemed interested by virtue of his interests in AAB and Tune Group Sdn Bhd pursuant to Section 8 of the Act.*

(3) *Deemed interested by virtue of its interest in AAB pursuant to Section 8 of the Act.*

(4) *Deemed interested by virtue of his interests in Capital A and Tune Group Sdn Bhd pursuant to Section 8 of the Act.*

(5) *Based on 1,447,072,803 issued Shares after the Proposed Private Placement assuming a total of 1,000,000,000 Placement Shares are issued at the minimum issue price of RM1.00 per Placement Share as determined by the Company to raise gross proceeds of approximately RM1,000.00 million.*

(6) *Based on 3,754,765,110 issued Shares after the Proposed AAAGL Acquisition.*

(7) *Deemed interested by virtue of his interests in Capital A, Tune Group Sdn Bhd, Tune Live and Tune Air pursuant to Section 8 of the Act.*

(8) *Assuming that all investors who subscribe for the Placement Shares are considered as public shareholders in accordance with the Listing Requirements. In the event that such investors will become substantial Shareholders of our Company as a result of the subscription of the Placement Shares and hence, will not be considered as public shareholders in accordance with the Listing Requirements, the public shareholding spread of our Company will decrease to 18.51% in Pro forma A(II) (Pro forma A(III): 41.43%). In such circumstance, in order to comply with the public shareholding spread requirement pursuant to Paragraph 8.02 of the Listing Requirements, the Placement Shares will be issued on the same day as the Consideration Shares*

Pro forma B: Based on the minimum issue price of RM1.13 per Placement Share

	As at 2 September 2024				B(I) After the AAX Stake Transfer			
	Direct		Indirect		Direct		Indirect	
Substantial Shareholders	**No. of Shares**	**%[1]**	**No. of Shares**	**%[1]**	**No. of Shares**	**%[1]**	**No. of Shares**	**%[1]**
Tan Sri Tony Fernandes	11,158,722	2.50	131,033,136[2]	29.31	11,158,722	2.50	131,033,136[4]	29.31
Datuk Kamarudin	37,070,993	8.29	131,033,136[2]	29.31	37,070,993	8.29	131,033,136[4]	29.31
AAB	57,072,850	12.77	-	-	-	-	-	-
Capital A	-	-	57,072,850[3]	12.77	57,072,850	12.77	-	-
Tune Group Sdn Bhd	73,960,286	16.54	-	-	73,960,286	16.54	-	-
Tune Live	-	-	-	-	-	-	-	-
Tune Air	-	-	-	-	-	-	-	-
Capital A and PACs	**179,262,851**	**40.10**			**179,262,851**	**40.10**		
Public shareholding spread (%)	**59.90**				**59.90**			

	B(II) After B(I) and the Proposed Private Placement				B(III) After (II) and the Proposed AAAGL Acquisition and Proposed Distribution by Capital A			
	Direct		Indirect		Direct		Indirect	
Substantial Shareholders	**No. of Shares**	**%[5]**	**No. of Shares**	**%[5]**	**No. of Shares**	**%[6]**	**No. of Shares**	**%[6]**
Tan Sri Tony Fernandes	11,158,722	0.84	131,033,136[4]	9.84	11,944,579	0.33	1,149,360,456[7]	31.58
Datuk Kamarudin	37,070,993	2.78	131,033,136[4]	9.84	37,856,850	1.04	1,149,360,456[7]	31.58
AAB	-	-	-	-	-	-	-	-
Capital A	57,072,850	4.29	-	-	672,457,465	18.48	-	-
Tune Group Sdn Bhd	73,960,286	5.55	-	-	73,960,286	2.13	-	-
Tune Live	-	-	-	-	200,000,800	5.49	-	-
Tune Air	-	-	-	-	202,941,905	5.58	-	-
Capital A and PACs	**179,262,851**	**13.46**			**1,199,161,885**	**32.95**		
Public shareholding spread (%)	**86.54[8]**				**67.05[8]**			

Notes: -

(1) Based on 447,072,803 issued Shares as at 2 September 2024.

(2) Deemed interested by virtue of his interests in AAB and Tune Group Sdn Bhd pursuant to Section 8 of the Act.

(3) Deemed interested by virtue of its interest in AAB pursuant to Section 8 of the Act.

(4) Deemed interested by virtue of his interests in Capital A and Tune Group Sdn Bhd pursuant to Section 8 of the Act.

(5) Based on 1,332,028,555 issued Shares after the Proposed Private Placement assuming a total of 884,955,752 Placement Shares are issued at an illustrative issue price of RM1.13 per Placement Share to raise gross proceeds of approximately RM1,000.00 million.

(6) Based on 3,639,720,862 issued Shares after the Proposed AAAGL Acquisition.

(7) Deemed interested by virtue of his interests in Capital A, Tune Group Sdn Bhd, Tune Live and Tune Air pursuant to Section 8 of the Act.

(8) Assuming that all investors who subscribe for the Placement Shares are considered as public shareholders in accordance with the Listing Requirements. In the event that such investors will become substantial Shareholders of our Company as a result of the subscription of the Placement Shares and hence, will not be considered as public shareholders in accordance with the Listing Requirements, the public shareholding spread of our Company will decrease to 20.10% in Pro forma B(II) (Pro forma B(III): 42.74%). In such circumstance, in order to comply with the public shareholding spread requirement pursuant to Paragraph 8.02 of the Listing Requirements, the Placement Shares will be issued on the same day as the Consideration Shares.

We noted that the actual shareholdings in AAX held by Capital A and PACs after the Proposed Private Placement and/or Proposed AAAGL Acquisition (including the Proposed Distribution by Capital A) would depend on the issue price of the Placement Shares to be determined later.

We noted that pursuant to the Letter of Undertaking as set out in Section 4.11, Part A of the Circular, Capital A and PACs have irrevocably and unconditionally undertaken that in the event of any circumstances or potential circumstances arise which will result in Capital A and PACs triggering any take-over obligations in the Rules at any given time throughout and/or upon completion of the Proposals (including the Proposed Acquisitions) and Proposed Distribution by Capital A, they will, or they will procure member(s) of the group of persons acting in concert to sell, transfer, give or otherwise dispose of the Company's Shares or ordinary shares in Capital A held by it / them before completion of the Proposed Private Placement and/or Proposed Distribution by Capital A, as the case may be, so as to not trigger the take-over obligations.

7.7.3 NA per share and gearing

Upon completion of the Proposed Acquisitions, the New Aviation Group's financial position will reflect the consolidated financial position of the AAX Group and the Target Companies.

For illustrative purposes only, based on the latest audited consolidated financial statements of AAX for the FYE 31 December 2023 and assuming that the Proposals (including the Proposed Acquisitions) had been effected on 31 December 2023, being the end of the FYE 31 December 2023, the pro forma effects of the Proposed Acquisitions on the consolidated NA per share and gearing of the Company are as follows: -

Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share

	Audited as at 31 December 2023 (RM'000)	A(I) After the Proposed Issuance of Free Warrants (RM'000)	A(II) After A(I) and the Proposed Private Placement (RM'000)	A(III) After (II) and the Proposed AAAGL Acquisition[1] (RM'000)	A(IV) After (III) and the Proposed AAB Acquisition (RM'000)
Share capital	51,029	51,029	1,051,029[2]	4,097,183	4,097,183
Capital reserve	-	-	-	931,700[3]	931,700
Merger deficit	-	-	-	(915,501)[4]	(915,501)
Foreign exchange reserve	(5,582)	(5,582)	(5,582)	53,833	53,833
Other reserves	-	-	-	(21,082)[5]	(21,082)
Retained earnings / (Accumulated losses)[6]	70,728	70,328	40,498	(3,565,158)[7]	(3,571,168)[8]
Shareholders' funds / NA	**116,175**	**115,775**	**1,085,945**	**580,975**	**574,965**
No. of Shares in issue ('000)	447,073	447,073	1,447,073	3,754,765	3,754,765
NA per Share (RM)	0.26	0.26	0.75	0.15	0.15
Total borrowings, debentures and lease liabilities (RM'000)	1,512,025	1,512,025	1,512,025	7,828,655[9]	24,492,686[10]
Deposits, bank and cash balances (RM'000)[6]	57,689	57,289	1,027,459	1,224,428	1,767,309[10]
Net borrowings, debentures and lease liabilities (RM'000)	1,454,336	1,454,736	484,566	6,604,227	22,725,377
Gearing (times)	13.02	13.06	1.39	13.48	42.60
Net gearing (times)	12.52	12.57	0.45	11.37	39.52

<u>*Notes: -*</u>

(1) *The Proposed AAAGL Acquisition has been accounted for as a reverse acquisition, following the guidelines outlined in Malaysian Financial Reporting Standards 3 Business Combinations. Even though AAX is the legal acquirer, for accounting purposes, AAAGL is considered the acquirer.*

(2) *Assuming a total of 1,000,000,000 Placement Shares are issued at the minimum issue price of RM1.00 per Placement Share as determined by the Company to raise gross proceeds of approximately RM1,000.00 million.*

(3) The capital reserve of RM931.70 million arises from the reverse acquisition accounting in respect of the Proposed AAAGL Acquisition.

(4) After taking into consideration the AAAGL Group's merger deficit of RM915.50 million as at 31 December 2023 which arises as a result of AAI, PAA, AAID and IAA becoming subsidiaries of AAAGL during the FYE 31 December 2023 as discussed in Section 1 of Appendix IV of the Circular. The business combinations of AAI, PAA, AAID and IAA were accounted for under the pooling of interest method and these have resulted in the merger deficit of RM915.50 million in the AAAGL Group.

(5) After taking into consideration the AAAGL Group's share option reserves of a debit balance of RM21.57 million (relating to employees share options granted by Capital A to certain eligible employees of the AAAGL Group) and surplus reserves of RM0.49 million maintained by AirAsia (Guangzhou) Aviation Service Limited Company, a wholly-owned subsidiary of AAAGL.

(6) *After deducting estimated expenses of approximately RM0.40 million (Proposed Issuance of Free Warrants), RM29.83 million (Proposed Private Placement), RM8.55 million (Proposed AAAGL Acquisition) and RM6.01 million (Proposed AAB Acquisition).*

(7) The accumulated losses of RM3,565.16 million arise from the reverse acquisition accounting in respect of the Proposed AAAGL Acquisition and after deducting estimated expenses for the Proposed AAAGL Acquisition of RM8.55 million. Pursuant to the reverse acquisition accounting, the accumulated losses of AAX Group will reflect the accumulated losses of the AAAGL Group (after adjusting for mainly the acquisition of 100% equity interest in AA Com Travel Philippines Inc. and the Vendor's Pre-Completion Restructuring).

(8) The business combination of the AAB Group will be accounted for using acquisition method. The only pro forma effect of the Proposed AAB Acquisition on the shareholders' funds / NA of our Group is the estimated expenses of RM6.01 million for the Proposed AAB Acquisition.

(9) After taking into consideration the AAAGL Group's total borrowings, debentures and lease liabilities of RM6,316.63 million as at 31 December 2023.

(10) After taking into consideration the following: -

(i) consolidation of the AAB Group's total borrowings and lease liabilities of RM16,283.29 million and deposits, bank and cash balances of RM168.49 million respectively as at 31 December 2023;

(ii) pre-payment / repayment of the AAB Group's term loan facilities of RM300.00 million using proceeds from the Proposed Private Placement; and

(iii) proceeds received from the issuance of bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, in August 2024, net of refinancing of lease liabilities and transaction costs. The proposed use of proceeds raised from the issuance of bonds is as set out in Section 10 of Appendix V of the Circular.

Pro forma B: Based on the minimum issue price of RM1.13 per Placement Share

	Audited as at 31 December 2023 (RM'000)	A(I) After the Proposed Issuance of Free Warrants (RM'000)	A(II) After A(I) and the Proposed Private Placement (RM'000)	A(III) After (II) and the Proposed AAAGL Acquisition[1] (RM'000)	A(IV) After (III) and the Proposed AAB Acquisition (RM'000)
Share capital	51,029	51,029	1,051,029[2]	4,097,183	4,097,183
Capital reserve	-	-	-	931,700[3]	931,700
Merger deficit	-	-	-	(915,501)[4]	(915,501)
Foreign exchange reserve	(5,582)	(5,582)	(5,582)	53,833	53,833
Other reserves	-	-	-	(21,082)[5]	(21,082)
Retained earnings / (Accumulated losses)[6]	70,728	70,328	40,498	(3,565,158)[7]	(3,571,168)[8]
Shareholders' funds / NA	**116,175**	**115,775**	**1,085,945**	**580,975**	**574,965**
No. of Shares in issue ('000)	447,073	447,073	1,332,029	3,639,721	3,639,721
NA per Share (RM)	0.26	0.26	0.82	0.16	0.16
Total borrowings, debentures and lease liabilities (RM'000)	1,512,025	1,512,025	1,512,025	7,828,655[9]	24,492,686[10]
Deposits, bank and cash balances (RM'000)[6]	57,689	57,289	1,027,459	1,224,428	1,767,309[10]
Net borrowings, debentures and lease liabilities (RM'000)	1,454,336	1,454,736	484,566	6,604,227	22,725,377
Gearing (times)	13.02	13.06	1.39	13.48	42.60
Net gearing (times)	12.52	12.57	0.45	11.37	39.52

Notes: -

(1) *The Proposed AAAGL Acquisition has been accounted for as a reverse acquisition, following the guidelines outlined in Malaysian Financial Reporting Standards 3 Business Combinations. Even though AAX is the legal acquirer, for accounting purposes, AAAGL is considered the acquirer.*

(2) *Assuming a total of 884,955,752 Placement Shares are issued at an illustrative issue price of RM1.13 per Placement Share to raise gross proceeds of approximately RM1,000.00 million.*

(3) *The capital reserve of RM931.70 million arises from the reverse acquisition accounting in respect of the Proposed AAAGL Acquisition.*

(4) *After taking into consideration the AAAGL Group's merger deficit of RM915.50 million as at 31 December 2023 which arises as a result of AAI, PAA, AAID and IAA becoming subsidiaries of AAAGL during the FYE 31 December 2023 as discussed in Section 1 of Appendix IV of the Circular. The business combinations of AAI, PAA, AAID and IAA were accounted for under the pooling of interest method and these have resulted in the merger deficit of RM915.50 million in the AAAGL Group.*

(5) *After taking into consideration the AAAGL Group's share option reserves of a debit balance of RM21.57 million (relating to employees share options granted by Capital A to certain eligible employees of the AAAGL Group) and surplus reserves of RM0.49 million maintained by AirAsia (Guangzhou) Aviation Service Limited Company, a wholly-owned subsidiary of AAAGL.*

(6) *After deducting estimated expenses of approximately RM0.40 million (Proposed Issuance of Free Warrants), RM29.83 million (Proposed Private Placement), RM8.55 million (Proposed AAAGL Acquisition) and RM6.01 million (Proposed AAB Acquisition).*

(7) *The accumulated losses of RM3,565.16 million arise from the reverse acquisition accounting in respect of the Proposed AAAGL Acquisition and after deducting estimated expenses for the Proposed AAAGL Acquisition of RM8.55 million. Pursuant to the reverse acquisition accounting, the accumulated losses of our Group will reflect the accumulated losses of the AAAGL Group (after adjusting for mainly the acquisition of 100% equity interest in AA Com Travel Philippines Inc. and the Vendor's Pre-Completion Restructuring).*

(8) *The business combination of the AAB Group will be accounted for using acquisition method. The only pro forma effect of the Proposed AAB Acquisition on the shareholders' funds / NA of the Group is the estimated expenses of RM6.01 million for the Proposed AAB Acquisition.*

(9) *After taking into consideration the AAAGL Group's total borrowings, debentures and lease liabilities of RM6,316.63 million as at 31 December 2023.*

(10) *After taking into consideration the following: -*

(i) *consolidation of the AAB Group's total borrowings and lease liabilities of RM16,283.29 million and deposits, bank and cash balances of RM168.49 million respectively as at 31 December 2023;*

(ii) *pre-payment / repayment of the AAB Group's term loan facilities of RM300.00 million using proceeds from the Proposed Private Placement; and*

(iii) *proceeds received from the issuance of bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, in August 2024, net of refinancing of lease liabilities and transaction costs. The proposed use of proceeds raised from the issuance of bonds is as set out in Section 10 of Appendix V of the Circular.*

The overall increase in NA of AAX Group upon completion of the Proposed Acquisitions, as illustrated in the pro forma effects set out above and Section 11.3, Part A of the Circular, is solely due to the increase in share capital contributed by the Proposed Private Placement.

We wish to highlight that the Proposed Acquisitions, upon completion, are expected to result in overall dilution to the NA and NA per share of AAX Group. This is mainly due to consolidation of the shareholders' deficit of AAAGL Group as at 31 December 2023 on reverse acquisition accounting upon completion of the Proposed AAAGL Acquisition and the dilutive effect arising from the estimated expenses of RM8.55 million for the Proposed AAAGL Acquisition. The Proposed AAB Acquisition, which is to be accounted for using acquisition method, is not expected to have a material impact to the NA and NA per share of AAX Group on completion; save for the dilutive effect arising from the estimated expenses of RM6.01 million for the Proposed AAB Acquisition.

We further noted that the Proposed Acquisitions, upon completion, are expected to result in overall increase to the gearing of AAX Group. This is mainly due to the consolidation of borrowings, debentures and lease liabilities of AAAGL Group and AAB Group upon completion of the Proposed Acquisitions. Consequently, AAX Group will be exposed to additional financing and default risk in relation to the high gearing of the New Aviation Group upon completion of the Proposed Acquisitions. Whilst such increase in gearing is inherent in this context and the exposure to additional financing and default risk cannot be fully mitigated, we are of the view that this has been adequately considered by the Board, taking into consideration the following: -

(i) the Proposed Acquisitions is conditional upon the Proposed Private Placement of RM1,000.00 million, of which RM300.00 million has been earmarked for pre-payment / repayment of the AAB Group's term loan facilities;

(ii) lease liabilities (which accounted for approximately 83.5% of the Group's pro forma total borrowings, debentures and lease liabilities upon completion of the Proposed Acquisitions) are mainly relating to leases of aircraft and spare engines, which are backed by corresponding right-of-use assets;

(iii) AAAGL Group and AAB Group have been able to sustain their operations over the years. For information purposes, both AAAGL Group and AAB Group generated positive cash flows from operating activities for the FYE 31 December 2023 and recorded positive cash and cash equivalents at the end of the FYE 31 December 2023;

(iv) the projected future revenue growth of AAAGL Group and AAB Group, backed by the relatively positive prospects and industry outlook, are expected to further enhance the ability of the New Aviation Group to meet its future obligations in relation to the repayment of borrowings, debentures and lease liabilities; and

(v) where necessary, the New Aviation Group may refinance its debt obligations to extend the tenure and/or to obtain more favourable financing terms. Further, as the New Aviation Group reactivates more aircrafts and ramps up its operations in line with the revival and increase of air travel demand after the COVID-19 pandemic, its financial performance and financial position are expected to strengthen, and this will also mitigate the financing and default risk.

Whilst the Proposed Acquisitions are expected to result in overall dilution to the NA and NA per share of AAX Group and increase in gearing of AAX Group upon completion, we are of the view that the Proposed Acquisitions remain justifiable from financial perspective taking into consideration the following: -

(i) the projected revenue growth of AAAGL Group and AAB Group, coupled with the expected elevated synergistic benefits envisaged by the Board and management of AAX, are expected to contribute positively to the New Aviation Group's future financial performance and position when materialise;

(ii) the New Aviation Group, upon completion of the Proposed Acquisitions, would stand to be better-positioned to capitalise on the potential overall medium and long-term growth in passenger traffic for the Asia Pacific region, taking into consideration the potential enhancement on competitive advantages arising from greater economies of scale and cost-savings as well as greater resilience towards future market challenges and uncertainties with a larger revenue base;

(iii) the Proposed Acquisitions present an opportunity for AAX Group to achieve instant expansion without actual cash outlays amidst the anticipated recovery of air traffic post COVID-19, where there will be 7 airlines operating under the New Aviation Group on completion of the Proposed Acquisitions, which are currently income-generating and capable of growth via increasing the flight frequency of existing routes and introducing new routes;

(iv) the Proposed Private Placement, which the Proposed Acquisitions are conditional upon, will help to enhance the overall NA of the New Aviation Group; and

(v) AAX Group may encounter similar dilution to NA and/or NA per share, and increase to gearing, if AAX Group opted to undertake organic growth and expansion by setting up new operations in the respective countries in which the AAAGL Group and AAB Group operate on its own.

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7.7.4 Earnings and earnings per share ("EPS")

Upon completion of the Proposed Acquisitions, the Company will consolidate the earnings of the Target Companies.

For illustrative purposes only, based on the latest audited consolidated financial statements of AAX for the FYE 31 December 2023 and assuming that the Proposals (including the Proposed Acquisitions) had been effected on 1 January 2023, being the beginning of the FYE 31 December 2023, the pro forma effects of the Proposed Acquisitions on the consolidated earnings and EPS of the Company are as follows: -

Pro forma A: Based on the minimum issue price of RM1.00 per Placement Share

	Audited for the FYE 31 December 2023 (RM'000)	A(I) After the Proposed Issuance of Free Warrants (RM'000)	A(II) After A(I) and the Proposed Private Placement (RM'000)	A(III) After (II) and the Proposed AAAGL Acquisition (RM'000)	A(IV) After (III) and the Proposed AAB Acquisition (RM'000)
Profit after taxation attributable to the owners of the Company (RM'000)[(1)]	331,505[(2)]	331,105	301,275	1,429,909[(3)]	4,906,650[(4)]
Weighted average number of Shares in issue ('000)	447,073	447,073	1,447,073[(5)]	3,754,765	3,754,765
EPS (sen)	74.15	74.06	20.82	38.08	130.68

Notes: -

(1) *After deducting estimated expenses of approximately RM0.40 million (Proposed Issuance of Free Warrants), RM29.83 million (Proposed Private Placement), RM8.55 million (Proposed AAAGL Acquisition) and RM6.01 million (Proposed AAB Acquisition).*

(2) *Includes reversal of additional loss in the investment in IAAX of RM223.25 million and other income of RM239.59 million comprising reversal of provision for travel voucher, reversal of impairment loss on amount due from an associate and reversal of provision for doubtful debt.*

(3) *After accounting for the consolidated profit after taxation attributable to the owners of AAAGL for the FYE 31 December 2023 amounting to approximately RM1,137,18 million which includes a gain on remeasurement of previously held interest in associate of RM1,547.87 million.*

(4) *After accounting for the (i) consolidated profit after taxation attributable to the owners of AAB for the FYE 31 December 2023 amounting to approximately RM3,620.87 million which includes a gain on disposal of "AirAsia" brand of RM4,500.00 million and (ii) annual interest savings (after taxation) of RM34.19 million based on the interest rate of 11.75% of the AAB Group's term loan facilities to be repaid using proceeds from the Proposed Private Placement and (iii) annual interest expenses (after taxation) and annual amortisation of transaction costs of approximately RM171.97 million as well as transaction costs directly charged to profit or loss of RM0.34 million in relation to the issuance of the bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, in August 2024.*

(5) *Assuming a total of 1,000,000,000 Placement Shares are issued at the minimum issue price of RM1.00 per Placement Share as determined by the Company to raise gross proceeds of approximately RM1,000.00 million.*

Pro forma B: Based on the minimum issue price of RM1.13 per Placement Share

	Audited for the FYE 31 December 2023 (RM'000)	A(I) After the Proposed Issuance of Free Warrants (RM'000)	A(II) After A(I) and the Proposed Private Placement (RM'000)	A(III) After (II) and the Proposed AAAGL Acquisition (RM'000)	A(IV) After (III) and the Proposed AAB Acquisition (RM'000)
Profit after taxation attributable to the owners of the Company (RM'000)(1)	331,505(2)	331,105	301,275	1,429,909(3)	4,906,650(4)
Weighted average number of Shares in issue ('000)	447,073	447,073	1,332,029(5)	3,639,721	3,639,721
EPS (sen)	74.15	74.06	22.62	39.29	134.81

Notes: -

(1) *After deducting estimated expenses of approximately RM0.40 million (Proposed Issuance of Free Warrants), RM29.83 million (Proposed Private Placement), RM8.55 million (Proposed AAAGL Acquisition) and RM6.01 million (Proposed AAB Acquisition).*

(2) *Includes reversal of additional loss in the investment in IAAX of RM223.25 million and other income of RM239.59 million comprising reversal of provision for travel voucher, reversal of impairment loss on amount due from an associate and reversal of provision for doubtful debt.*

(3) *After accounting for the consolidated profit after taxation attributable to the owners of AAAGL for the FYE 31 December 2023 amounting to approximately RM1,137.18 million which includes a gain on remeasurement of previously held interest in associate of RM1,547.87 million.*

(4) *After accounting for the (i) consolidated profit after taxation attributable to the owners of AAB for the FYE 31 December 2023 amounting to approximately RM3,620.87 million which includes a gain on disposal of "AirAsia" brand of RM4,500.00 million and (ii) annual interest savings (after taxation) of RM34.19 million based on the interest rate of 11.75% of the AAB Group's term loan facilities to be repaid using proceeds from the Proposed Private Placement and (iii) annual interest expenses (after taxation) and annual amortisation of transaction costs of approximately RM171.97 million as well as transaction costs directly charged to profit or loss of RM0.34 million in relation to the issuance of the bonds by AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, in August 2024.*

(5) *Assuming a total of 775,193,798 Placement Shares are issued at an illustrative issue price of RM1.29 per Placement Share to raise gross proceeds of approximately RM1,000.00 million.*

We noted that the computation of pro forma effects above is strictly for illustrative purposes only. It is not an indication of future financial performance of the New Aviation Group which will be dependent on, amongst others, the outcome of the New Aviation Group's future business plans and strategies, use of proceeds raised form issuance of Placement Shares and the bonds issued by AirAsia RB 1 Ltd, outlook of the aviation industry as well as prospects of the Target Companies and the New Aviation Group.

The overall increase in earnings and EPS of AAX Group upon completion of the Proposed Acquisitions, as illustrated in the pro forma effects set out above and Section 11.4, Part A of the Circular, is largely driven by non-recurring gains of the AAAGL Group (comprising gain on remeasurement of previously held interest in associate of RM1,547.87 million) and AAB Group (comprising gain on disposal of "AirAsia" brand of RM4,500.00 million) during the FYE 31 December 2023.

For information purposes, we noted that: -

(i) for the 6-month FPE 30 June 2024, AAAGL Group recorded revenue of RM5,446.37 million (6-month FPE 30 June 2023: RM2,126.62 million) and operating profit of RM216.71 million (6-month FPE 30 June 2023: operating loss of RM238.34 million). Notwithstanding that, AAAGL Group recorded loss after taxation of RM664.65 million for the 6-month FPE 30 June 2024, which was largely due to loss on foreign exchange of RM572.92 million was recorded for the 6-month FPE 30 June 2024. Please refer to Section 9, Appendix IV of the Circular for further information on the historical financial information of AAAGL Group;

(ii) for the 6-month FPE 30 June 2024, AAB Group recorded revenue of RM4,133.44 million (6-month FPE 30 June 2023: RM3,053.49 million) and operating profit of RM453.17 million (6-month FPE 30 June 2024: RM4,923.16 million). Notwithstanding that, AAB Group recorded loss after taxation of RM208.79 million for the 6-month FPE 30 June 2024, which was largely due to loss on foreign exchange of RM301.13 million. Please refer to Section 9, Appendix V of the Circular for further information on the historical financial information of AAB Group; and

The actual effects of the Proposed Acquisitions to the earnings and EPS of AAX Group are only observable in the future upon completion of the Proposed Acquisitions, which is uncertain and dependent on the financial performance of AAAGL Group and AAB Group at that relevant point in time.

The Proposed Acquisitions will contribute positively to the earnings and EPS of AAX Group, should AAAGL Group and AAB Group attain higher earnings and EPS as compared to the AAX Group on completion of the Proposed Acquisitions. Conversely, the Proposed Acquisitions will contribute negatively to the earnings and EPS of AAX Group, should AAAGL Group and AAB Group attain lower earnings and EPS as compared to the AAX Group on completion of the Proposed Acquisitions.

Notwithstanding that AAAGL Group and AAB Group have both recorded loss after taxation for the 6-month FPE 30 June 2024, we are of the view that the Proposed Acquisitions remain justifiable from financial perspective taking into consideration the following: -

(i) the revenue of both AAAGL Group and AAB Group are improving, backed by continued growth in domestic and regional travel demand;

(ii) the Proposed Acquisitions present an opportunity for AAX Group to achieve instant expansion without actual cash outlays amidst the anticipated recovery of air traffic post COVID-19, where there will be 7 airlines operating under the New Aviation Group on completion of the Proposed Acquisitions, which are currently income-generating and capable of growth via increasing the flight frequency of existing routes and introducing new routes; and

(iii) the projected revenue growth of AAAGL Group and AAB Group, coupled with the expected elevated synergistic benefits envisaged by the Board and management of AAX, are expected to contribute positively to the New Aviation Group’s future financial performance and position when materialise.

7.7.5 Convertible securities

We noted in Section 11.5, Part A of the Circular that, as at the LPD, the Company does not have any outstanding convertible securities in issue. The Proposed Acquisitions will not give rise to any adjustment to the exercise price and the number of Warrants pursuant to the Deed Poll.

WYNCORP's comments
Based on the pro forma financial effects, we observed that the Proposed Acquisitions are expected to: - (i) increase the issued share capital pursuant to the issuance of Consideration Shares; (ii) increase the existing substantial Shareholders' (namely, Tan Sri Tony Fernandes, Datuk Kamarudin and Capital A) shareholdings and give rise to new substantial Shareholders' (namely, Tune Live and Tune Air) in the Company; (iii) increase the overall NA in line with the enlarged capital base pursuant to the issuance of Consideration Shares (to satisfy the AAAGL Purchase Consideration), but dilute the NA per Share resulting from the enlarged number of issued Shares pursuant to the issuance of Consideration Shares (to satisfy the AAAGL Purchase Consideration); (iv) increase the gearing pursuant to the consolidation of borrowings, debentures and lease liabilities of the AAAGL Group and AAB Group upon completion of the Proposed Acquisitions; and (v) increase the earnings and EPS pursuant to the consolidation of profit after taxation of the AAAGL Group and AAB Group upon completion of the Proposed Acquisitions. However, it is noted that such increase in the earnings and EPS based on the pro forma effects for the FYE 31 December 2023, is largely driven by one-off items. Actual effects of the Proposed Acquisitions on the earnings and EPS will be dependent on, amongst others, the outcome of the New Aviation Group's future business plans and strategies, use of proceeds raised from issuance of Placement Shares and the bonds issued by AirAsia RB 1 Ltd, outlook of the aviation industry as well as prospects of the Target Companies and the New Aviation Group.

We wish to highlight that the Proposed Acquisitions, upon completion, are expected to result in: -

(i) overall dilution to the NA and NA per share of AAX Group, due to consideration of the shareholders' deficit of AAAGL Group on reverse acquisition accounting and the dilutive effect arising from the estimated expenses for the Proposed AAAGL Acquisition (estimated to be approximately RM8.55 million) and Proposed AAB Acquisition (estimated to be approximately RM6.01 million); and

(ii) overall increase to the gearing of AAX Group, due to consolidation of borrowings, debentures and lease liabilities of AAAGL Group and AAB Group. Consequently, AAX Group will be exposed to additional financing and default risk in relation to the high gearing of the New Aviation Group upon completion of the Proposed Acquisitions.

In addition, the actual effects of the Proposed Acquisitions to the earnings and EPS of AAX Group are only observable in the future upon completion of the Proposed Acquisitions, which is uncertain and dependent on the financial performance of AAAGL Group and AAB Group at that relevant point in time.

Notwithstanding the above, we are of the view that the Proposed Acquisitions are <u>fair</u>, <u>reasonable</u> and <u>not detrimental to the interest of the non-interested Shareholders of AAX</u> from overall financial perspective, taking into consideration the following: -

(i) the rationale of the Proposed Acquisitions (as set out in Section 8.3, Part A of the Circular and assessed in Section 7.1 of this IAL);

(ii) **the industry outlook and prospects (as set out in Section 9, Part A of the Circular and assessed in Section 7.5 of this IAL);**

(iii) **the Proposed Acquisitions remain justifiable, notwithstanding the potential negative effects to the NA, NA per share and gearing of AAX Group upon completion of the Proposed Acquisitions, premised on the factors and considerations as discussed in Section 7.7.3 of this IAL; and**

(iv) **the Proposed Acquisitions remain justifiable, notwithstanding the actual effects to the earnings and EPS of AAX Group are only observable in the future upon completion of the Proposed Acquisitions, which is uncertain and dependent on the financial performance of AAAGL Group and AAB Group at that relevant point in time; premised on the factors and considerations as discussed in Section 7.7.4 of this IAL.**

8. CONCLUSION AND RECOMMENDATION

The non-interested Shareholders of AAX are advised to carefully consider the merits and demerits of the Proposal Acquisitions based on all relevant and pertinent factors, including those set out in this IAL as well as those highlighted by the Board in the letter to the shareholders of AAX in relation to the Proposal Acquisitions as set out in Part A of the Circular, before voting on the resolutions pertaining to the Proposal Acquisitions at the forthcoming EGM of the Company.

We have assessed and evaluated the Proposed Acquisitions and have set out our evaluation in Section 7 of this IAL, after taking into consideration various aspects (financial and non-financial) of the Proposed Acquisitions.

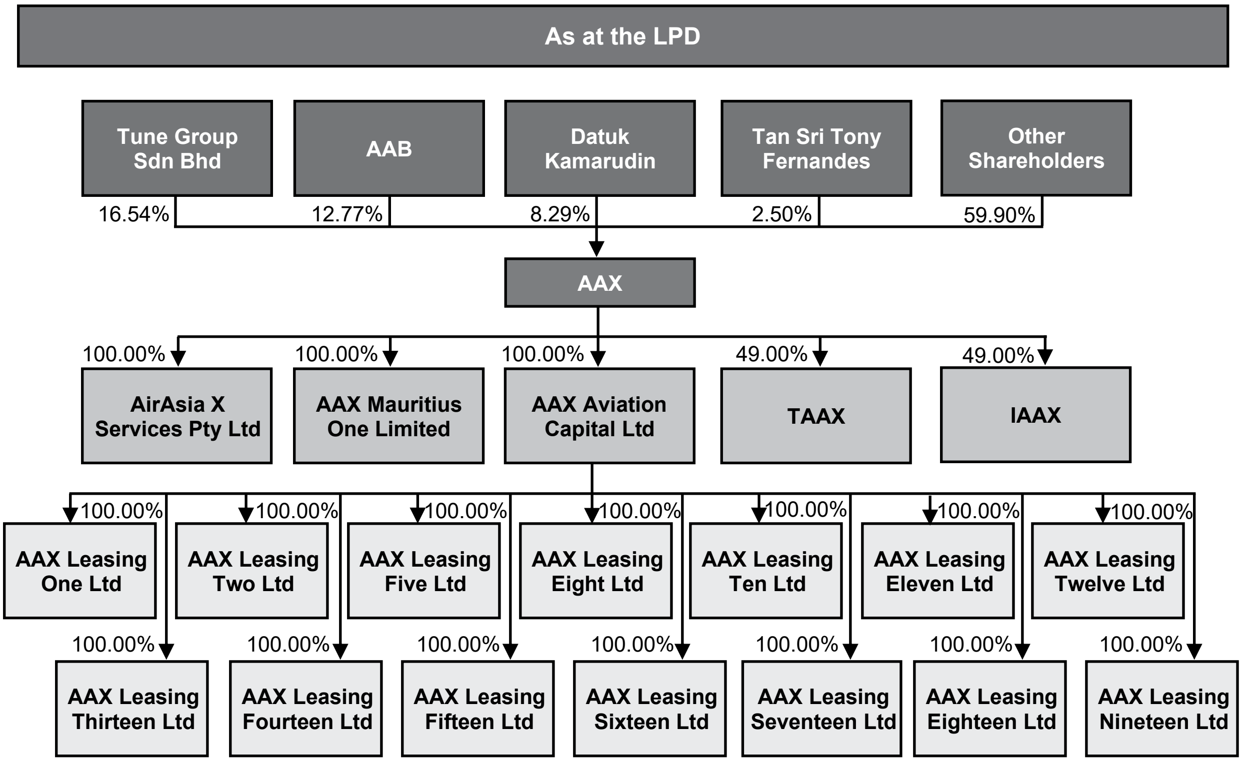
Premised on our overall evaluation of the Proposed Acquisitions on a holistic basis, we are of the opinion that the Proposed Acquisitions are **FAIR**, **REASONABLE** and **NOT DETRIMENTAL TO THE INTEREST OF THE NON-INTERESTED SHAREHOLDERS OF AAX**.

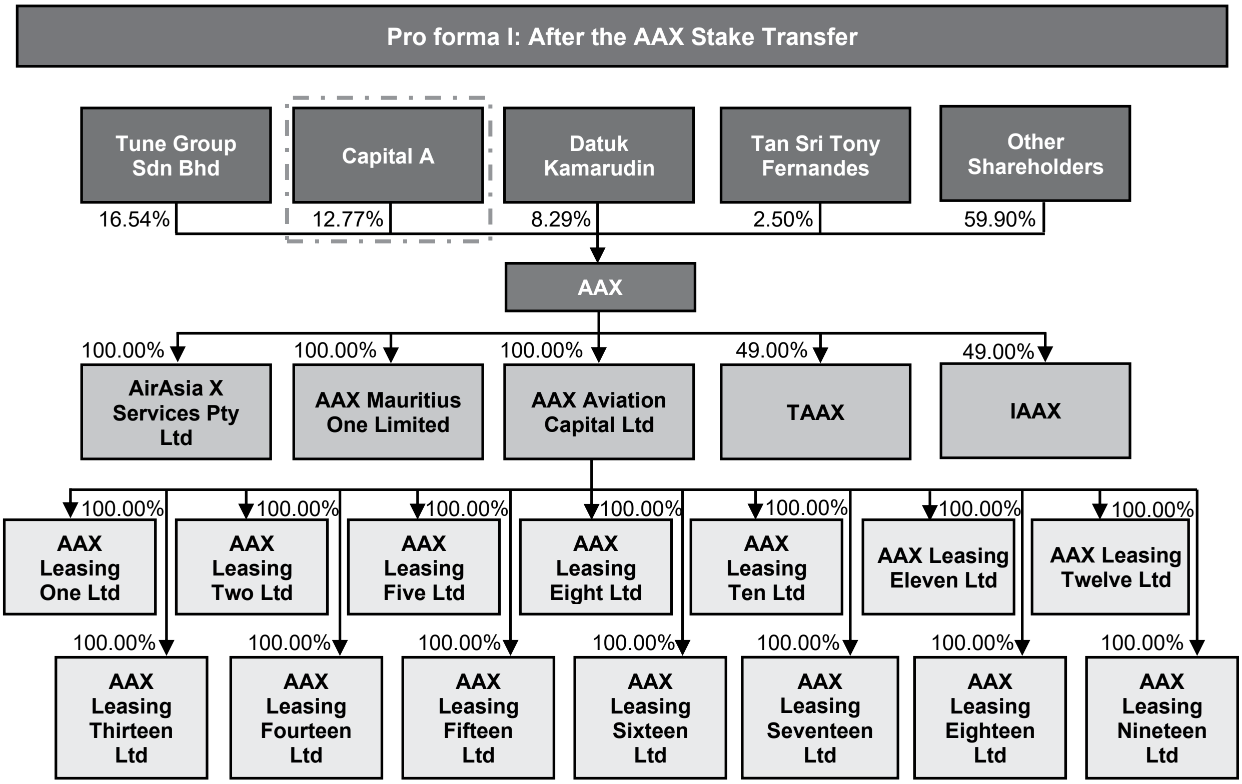
Accordingly, we recommend that you **VOTE IN FAVOUR** of the ordinary resolutions pertaining to the Proposed Acquisitions to be tabled at the forthcoming EGM of the Company.

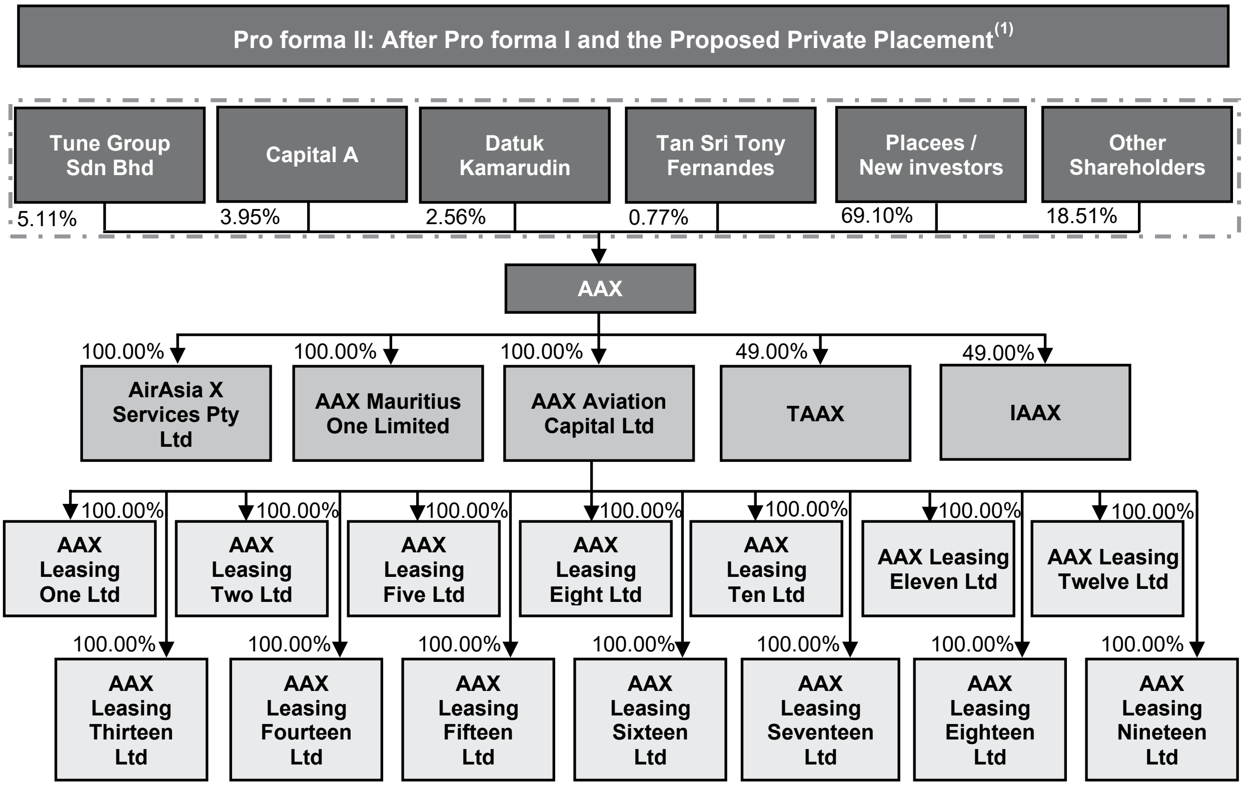
Yours faithfully
For and on behalf of
WYNCORP ADVISORY SDN BHD

WONG YOKE NYEN	**MOH JIUN HAUR**
Managing Director	Director

The changes in corporate structure of our Group are as follows:-







<u>*Note:-*</u>

(1) *Assuming a total of 1,000,000,000 Placement Shares are issued at an issue price of RM1.00 (representing the minimum issue price of the Placement Shares as determined by our Company) to raise gross proceeds of approximately RM1,000.00 million.*

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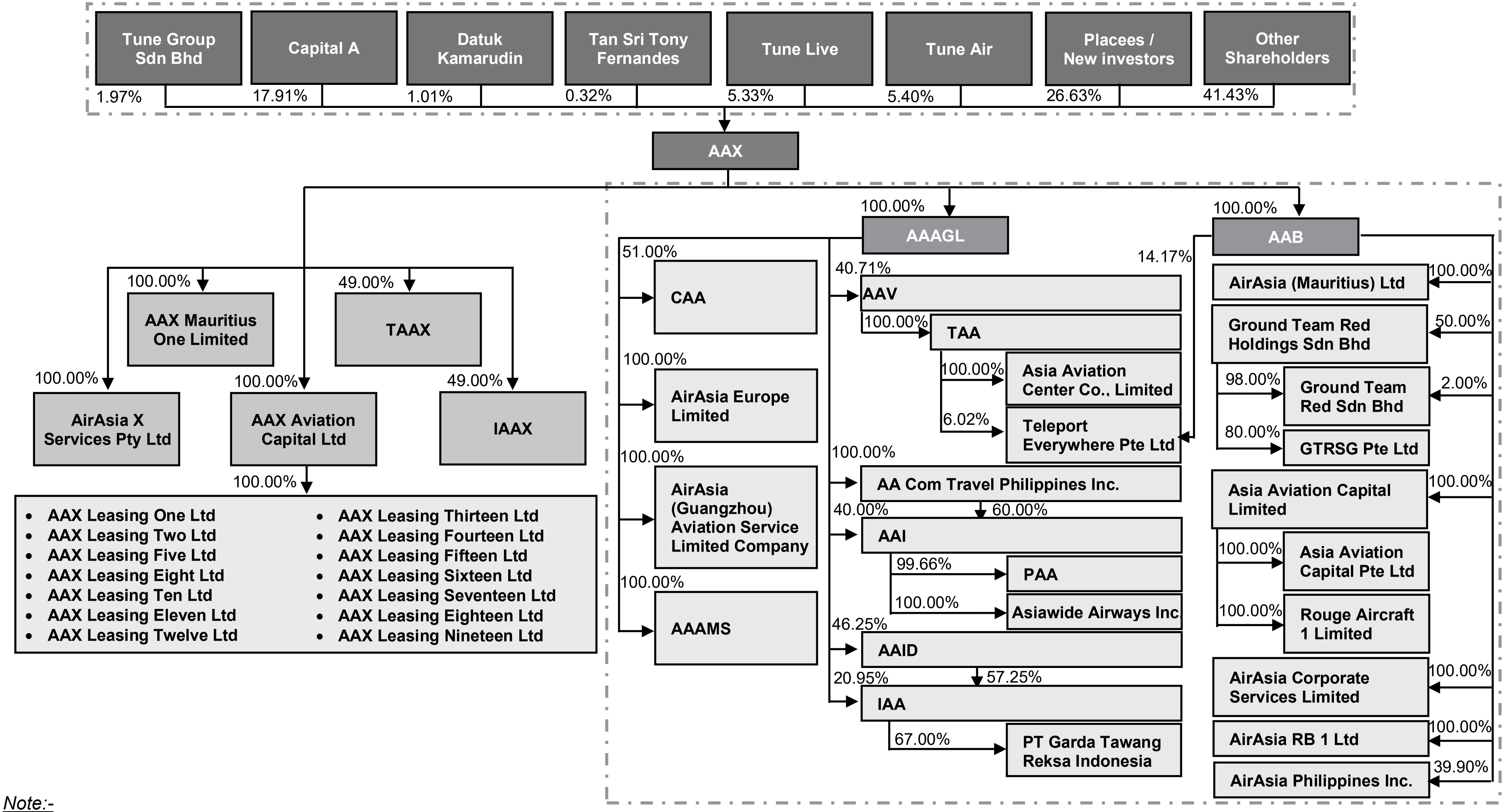
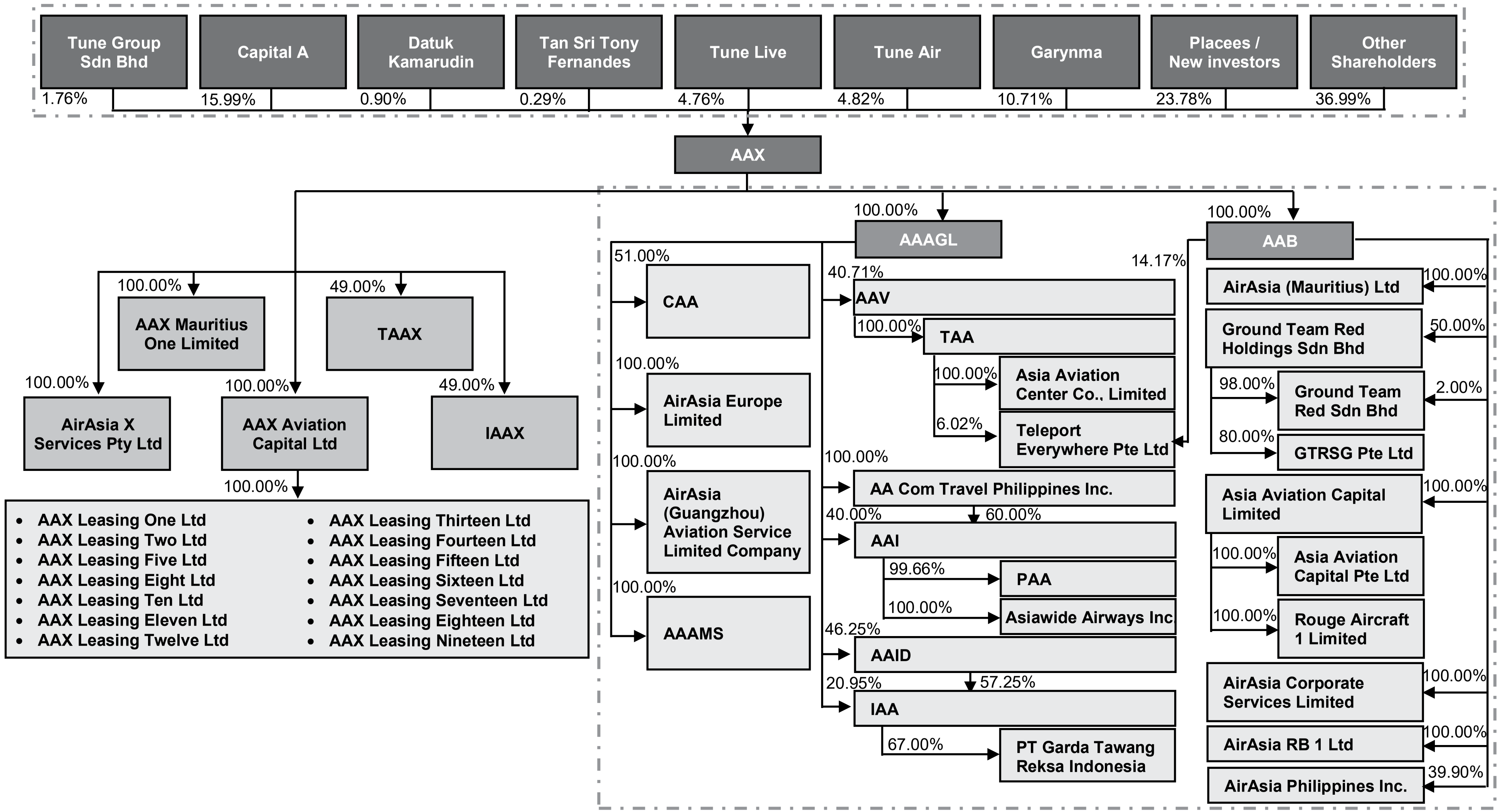
Pro forma III: After Pro forma II, the Proposed Acquisitions and Proposed Distribution by Capital A[(1)]

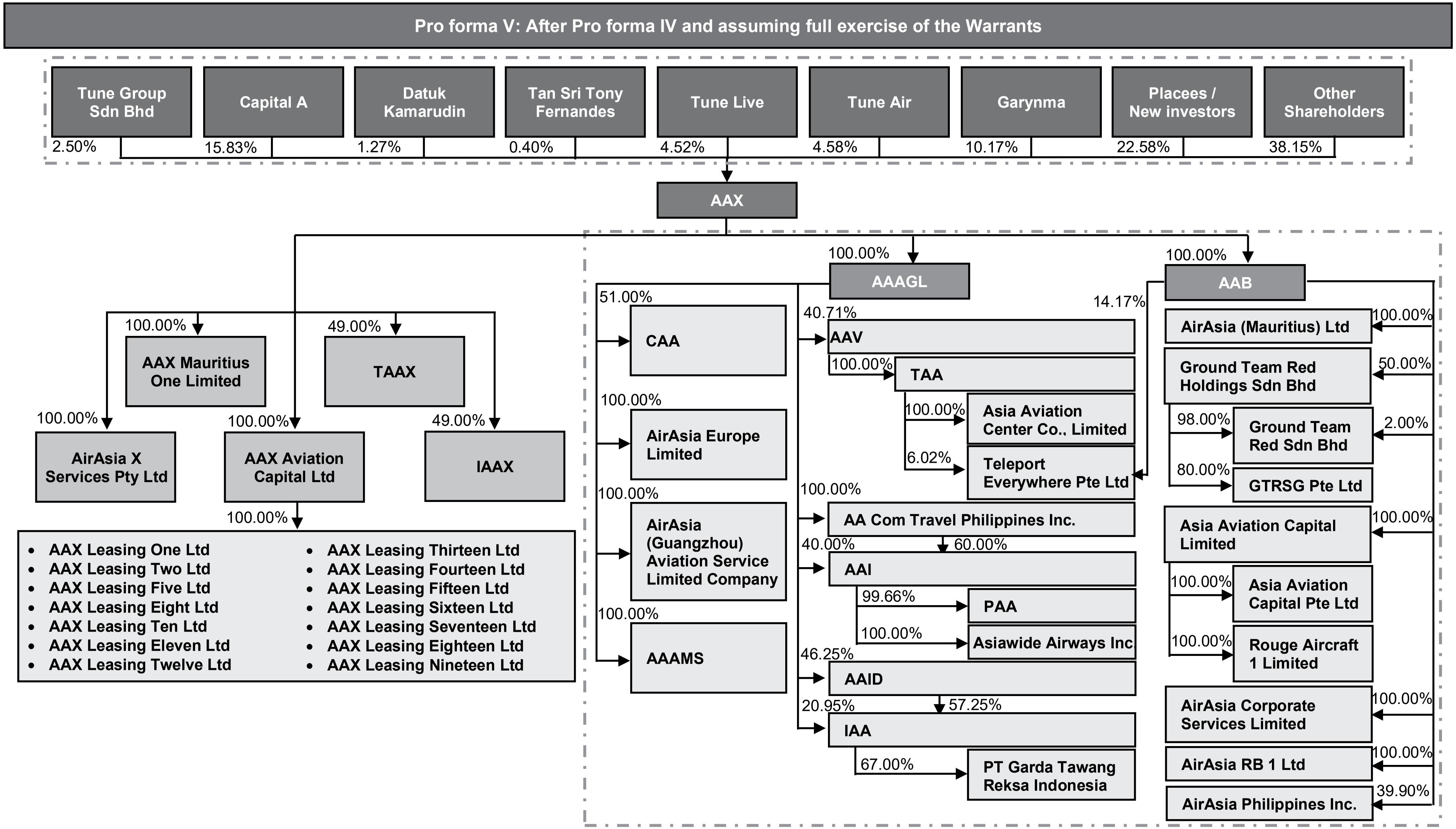


Note:-

(1) *Assuming none of the outstanding convertible securities in Capital A as at the LPD will be exercised or converted into new ordinary shares in Capital A prior to the entitlement date for the Proposed Distribution by Capital A.*

Pro forma IV: After Pro forma III and assuming full subscription of the Subscription Shares




Pro forma V: After Pro forma IV and assuming full exercise of the Warrants
Tune Group Sdn Bhd
2.50%
Capital A
15.83%
Datuk Kamarudin
1.27%
Tan Sri Tony Fernandes
0.40%
Tune Live
4.52%
Tune Air
4.58%
Garynma
10.17%
Placees / New investors
22.58%
Other Shareholders
38.15%
AAX
100.00%
AAX Mauritius One Limited
49.00%
TAAX
100.00%
AirAsia X Services Pty Ltd
100.00%
AAX Aviation Capital Ltd
49.00%
IAAX
100.00%
AAX Leasing One Ltd
AAX Leasing Two Ltd
AAX Leasing Five Ltd
AAX Leasing Eight Ltd
AAX Leasing Ten Ltd
AAX Leasing Eleven Ltd
AAX Leasing Twelve Ltd
AAX Leasing Thirteen Ltd
AAX Leasing Fourteen Ltd
AAX Leasing Fifteen Ltd
AAX Leasing Sixteen Ltd
AAX Leasing Seventeen Ltd
AAX Leasing Eighteen Ltd
AAX Leasing Nineteen Ltd
100.00%
AAAGL
100.00%
AAB
51.00%
CAA
100.00%
AirAsia Europe Limited
100.00%
AirAsia (Guangzhou) Aviation Service Limited Company
100.00%
AAAMS
40.71%
AAV
100.00%
TAA
100.00%
Asia Aviation Center Co., Limited
6.02%
Teleport Everywhere Pte Ltd
14.17%
100.00%
AA Com Travel Philippines Inc.
40.00%
60.00%
AAI
99.66%
PAA
100.00%
Asiawide Airways Inc
46.25%
AAID
20.95%
57.25%
IAA
67.00%
PT Garda Tawang Reksa Indonesia
100.00%
AirAsia (Mauritius) Ltd
50.00%
Ground Team Red Holdings Sdn Bhd
98.00%
2.00%
Ground Team Red Sdn Bhd
80.00%
GTRSG Pte Ltd
100.00%
Asia Aviation Capital Limited
100.00%
Asia Aviation Capital Pte Ltd
100.00%
Rouge Aircraft 1 Limited
100.00%
AirAsia Corporate Services Limited
100.00%
AirAsia RB 1 Ltd
39.90%
AirAsia Philippines Inc.

APPENDIX II(A) – SALIENT TERMS OF THE AAAGL SSPA

The salient terms of the AAAGL SSPA are as follows:-

1. Sale and purchase of the entire AAAGL Equity Interest

On and subject to the terms of the AAAGL SSPA, the Vendor agrees to sell, and the Purchaser agrees to purchase the entire equity interest (including any forms of capital contribution and any unissued capital) in AAAGL.

The entire AAAGL Equity Interest shall be sold by the Vendor free from encumbrances and together with all rights and advantages attaching to them as at completion of the Proposed AAAGL Acquisition (including the right to receive all dividends and distributions declared, made or paid on or after the said completion).

2. AAAGL Purchase Consideration

The consideration for the sale and purchase of the entire AAAGL Equity Interest under the AAAGL SSPA shall be RM3,000,000,000 which is to be satisfied fully by the allotment and issuance of 2,307,692,307 Consideration Shares at an issue price of RM1.30 per Consideration Share.

The Consideration Shares shall, upon allotment and issuance, rank equally in all respects with each other and with the then existing Shares, save and except that the holder of the Consideration Shares shall not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to our Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the Consideration Shares.

3. AAAGL Conditions Precedent

3.1 The obligations of the parties to the AAAGL SSPA to consummate the transactions contemplated by the AAAGL SSPA are subject to the satisfaction or fulfilment, or mutual written waiver, on or before the AAAGL Cut-Off Date (as defined below), of each of the following conditions precedent (collectively, the "**AAAGL Conditions Precedent**"):-

(i) the approval of the shareholders of the Vendor being obtained at an EGM to be convened for the Proposed Distribution by Capital A and Proposed AAAGL Acquisition;

(ii) the approval of the holders of the Capital A RCUIDS being obtained for the Proposed Distribution by Capital A and Proposed AAAGL Acquisition;

(iii) the approval / consent of the governmental entity, financiers / lenders or any third party, as may be necessary, being obtained by (where applicable) the Vendor, the Vendor's subsidiaries or the relevant entity within the AAAGL Group for the Vendor's Pre-Completion Restructuring, Proposed Distribution by Capital A and Proposed AAAGL Acquisition as set out below:-

(a) (1) (A) agreement between the parties to the AAAGL SSPA after consultation with the MAVCOM or the CAAM or any successor thereof (as the case may be) or (B) the confirmation or concurrence of MAVCOM or CAAM or any successor thereof (as the case may be), that Section 54(1) of the MAVCOM Act[(1)] or Section 36T(1) of the CAAM Act[(2)] (as the case may be) is not applicable to the Proposed AAAGL Acquisition; or

(2) a decision is issued by MAVCOM or CAAM or any successor thereof (as the case may be) that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not infringed if the Proposed AAAGL Acquisition is carried into effect;

Notes:-

(1) Section 54(1) of the MAVCOM Act provides that mergers that have resulted, or may be expected to result, in a substantial lessening of competition in any aviation service market are prohibited.

(2) Pursuant to Section 15 of the Civil Aviation Authority of Malaysia (Amendment) Act 2024, the CAAM Act will be amended by, amongst others, inserting a new Section 36T which provides that mergers that have resulted, or may be expected to result, in a substantial lessening of competition in any aviation service market are prohibited. For information purposes, the aforesaid amendment of the CAAM Act has yet to come into force as at the LPD.

(b) Bank Negara Malaysia, Foreign Exchange Administration with regards to the AAAGL Debt Novation;

(c) financiers / lenders in respect of the Capital A RCUIDS as well as banking facilities granted to certain subsidiaries of Capital A;

(d) third parties in respect of certain aircraft lease as well as operational agreements;

(e) any other approvals, waivers or consents of and/or notifications to any authorities or parties as may be required by law or regulation or deemed necessary and mutually agreed by the parties to the AAAGL SSPA; and

(f) the approvals and/or consents of lenders / financiers of the relevant entity within the AAAGL Group for the release and/or discharge of any corporate guarantee and/or security provided by the Vendor or its group of companies (excluding the AAAGL Group) in favour of lenders / financiers of the relevant entity within the AAAGL Group shall be obtained before the date of completion of the Proposed AAAGL Acquisition. For the avoidance of doubt, Capital A and AAX agree that they shall not be entitled to waive this condition precedent.

(iv) the completion of the Vendor's Pre-Completion Restructuring;

(v) the sanction of the High Court being obtained for the capital reduction pursuant to the Proposed Distribution by Capital A;

(vi) the AAAGL Group collectively does not incur or record an aggregate loss exceeding RM50,000,000[(1)] during the 3-month period immediately preceding the date of completion of the Proposed AAAGL Acquisition;

Note:-

(1) Together with the conditions precedent in the AAB SSPA, the AAAGL Group and AAB Group shall not incur or record an aggregate loss exceeding RM100.00 million during the 3-month period immediately preceding the dates of completion of the Proposed Acquisitions. The amount of RM100.00 million is determined based on 10% of the total gross proceeds of RM1,000.00 million to be raised from the Proposed Private Placement.

(vii) the completion of the due diligence exercise comprising examination and verification of the financial, legal and other affairs of the AAAGL Group by accountants, valuers, solicitors or such other professionals (if required) and the results of the due diligence exercise being reasonably satisfactory to the Purchaser;

(viii) your approval being obtained at an EGM to be convened for the Proposed AAAGL Acquisition;

(ix) the approval / consent of the governmental entity, financiers / lenders or any third party, as may be necessary, being obtained by (where applicable) the Purchaser or any of the Purchaser's subsidiaries for the Proposed AAAGL Acquisition as set out below:-

(a) (1) (A) agreement between the parties to the AAAGL SSPA after consultation with the MAVCOM or the CAAM or any successor thereof (as the case may be) or (B) the confirmation or concurrence of MAVCOM or CAAM or any successor thereof (as the case may be), that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not applicable to the Proposed AAAGL Acquisition; or

(2) a decision is issued by MAVCOM or CAAM or any successor thereof (as the case may be) that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not infringed if the Proposed AAAGL Acquisition is carried into effect, where applicable;

(b) Takeover Panel of Securities and Exchange Commission, Thailand in respect of the proposed exemption under the applicable takeover rules in Thailand to be sought by the Purchaser from the obligation to undertake a tender offer to acquire all remaining shares in AAV not already owned by the Purchaser on completion of the Proposed AAAGL Acquisition;

(c) Bursa Securities for the listing and quotation of the Consideration Shares and Placement Shares on the Main Market of Bursa Securities; and

(d) any other approvals, waivers or consents of and/or notifications to any authorities or parties as may be required by law or regulation or deemed necessary and mutually agreed by the parties to the AAAGL SSPA; and

(x) the Purchaser raising RM1,000,000,000 within the financial year ending 31 December 2024, pursuant to the placement letter(s) or commitment letter(s) or agreement(s) (as the case may be) executed by the Purchaser and the identified investors in relation to the Proposed Private Placement.

"**AAAGL Cut-Off Date**" means –

(i) 6 months after the date of the AAAGL SSPA for the AAAGL Conditions Precedent (save for AAAGL Condition Precedent referred to in paragraph 3.1(vii) above); and

(ii) for the AAAGL Condition Precedent referred to in paragraph 3.1(vii) above, 60 days after the date of the AAAGL SSPA with an automatic extension for a further period of 60 days,

or such other date as mutually agreed between the parties to the AAAGL SSPA in writing.

3.2 If the AAAGL Conditions Precedent are not satisfied or waived on or before 5:00 p.m. on the AAAGL Cut-Off Date, the parties to the AAAGL SSPA may, acting reasonably and by mutual agreement in writing extend the AAAGL Cut-Off Date or failing agreement to extend, the AAAGL SSPA (other than the surviving provisions as stipulated in the AAAGL SSPA) shall lapse and consequently each party to the AAAGL SSPA shall have no claim against the other party, save for a claim arising out of antecedent breaches of the AAAGL SSPA.

3.3 Between the date of the AAAGL SSPA and completion of the Proposed AAAGL Acquisition, and except for the Proposed AAAGL Acquisition, Proposed Issuance of Free Warrants, Proposed Private Placement and Proposed Granting of Subscription Options, the Purchaser agrees that unless the prior written approval of the Vendor has been obtained, it shall not seek and/or obtain its shareholders' approval for the Purchaser to undertake any corporate exercise or approve any proposed amendment(s) to any existing corporate exercise(s) which has the effect of increasing or enlarging the number of shares of the Purchaser, including, without limitation, any issue of shares or other securities convertible into shares or securities with rights to acquire or subscribe for shares or other securities in consideration or part consideration for or in connection with the acquisition of any securities, assets or business, failing which, the Vendor may terminate the AAAGL SSPA (other than the surviving provisions as stipulated in the AAAGL SSPA) at any time prior to completion of the Proposed AAAGL Acquisition with the Vendor's interest in the entire AAAGL Equity Interest intact.

4. Completion of the Proposed AAAGL Acquisition

4.1 Completion of the sale and purchase of the entire AAAGL Equity Interest under the AAAGL SSPA shall take place 1 month following the date on or by which all AAAGL Conditions Precedent have been satisfied, fulfilled and/or waived other than those AAAGL Conditions Precedent that by their nature are to be satisfied at completion of the Proposed AAAGL Acquisition (and have been satisfied, fulfilled and/or waived at completion of the Proposed AAAGL Acquisition) or at such other time as the parties to the AAAGL SSPA may mutually agree in writing.

4.2 If any provision of the completion clause under the AAAGL SSPA is not fully complied with, the Purchaser, in the case of a default or non-compliance by the Vendor, or the Vendor, in the case of a default or non-compliance by the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available to it):-

(i) to effect completion of the Proposed AAAGL Acquisition so far as practicable having regard to the defaults which have occurred; or

(ii) to fix a new date for completion of the Proposed AAAGL Acquisition not being later than 1 month after the intended date of completion of the Proposed AAAGL Acquisition, on the basis that such deferral may only occur once; or

(iii) to terminate the AAAGL SSPA (other than the surviving provisions as stipulated in the AAAGL SSPA and save in respect of rights arising out of any antecedent breach of the AAAGL SSPA including with respect to a breach of the relevant completion obligations) without liability on the part of the non-defaulting party with the Vendor's interest in the entire AAAGL Equity Interest intact.

4.3 Notwithstanding the above, each party to the AAAGL SSPA shall be at liberty to take such action in law as may be necessary to compel the other party by way of specific performance to complete the transaction contemplated in the AAAGL SSPA (in which respect the alternative remedy of monetary compensation shall not be regarded as compensation or sufficient compensation for any default of a party in the performance of the terms and conditions in the AAAGL SSPA) or to claim damages for the breach of the other party.

5. Right to claim for breach of warranties

Each party to the AAAGL SSPA has a right to claim for breach of warranties by the other party only following and subject to completion of the Proposed AAAGL Acquisition. In the event the said completion does not occur and the AAAGL SSPA is terminated, the non-defaulting party shall not be able to claim against the defaulting party for breach of warranties save for antecedent breaches under the AAAGL SSPA.

Nevertheless, the non-defaulting party has the right to terminate the AAAGL SSPA at any time prior to the completion of the Proposed AAAGL Acquisition in any of the following events:-

(i) the non-defaulting party becomes aware that any of the defaulting party's warranties was untrue or inaccurate; or

(ii) any inconsistency with the warranties given by the defaulting party is discovered; and/or

(iii) an AAAGL Material Adverse Change[(1)] has occurred; or

(iv) any other breach on the part of the defaulting party of the terms of the AAAGL SSPA occurring.

Note:-

*(1) An "**AAAGL Material Adverse Change**" means any occurrence, condition, change, event or effect that is materially adverse to the AAAGL Group or our Company and our subsidiaries (as the case may be), taken as a whole, which results in an impact on the financial position or profit / loss after tax of the group of RM65,000,000 or more, provided that none of the following constitutes an AAAGL Material Adverse Change:-*

(i) any occurrence, condition, change, event or effect resulting from or relating to changes in general economic conditions or financial market conditions (whether relating to equity, debt or currencies);

(ii) the occurrence of any natural disasters, pandemics and acts of terrorism, except in the event, and only to the extent, of any damage or destruction to or loss of the physical properties of the AAAGL Group or our Company and our subsidiaries (as the case may be);

(iii) any occurrence, condition, change, event or effect resulting from or relating to:-

(a) the announcement or pendency of the proposed sale and/or purchase of the entire AAAGL Equity Interest (whichever applicable);

(b) compliance by any party to the AAAGL SSPA with the terms of the AAAGL SSPA; and

(c) actions made by any party to the AAAGL SSPA which are expressly contemplated and permitted by the AAAGL SSPA, or if not so permitted, otherwise consented to by the Vendor and the Purchaser in writing; and

(iv) any change in laws, regulations, rules or administrative practices of any governmental entity, including a change in tax regime or treatment or the introduction of currency controls which have an effect on the AAAGL Group or our Company and our subsidiaries (as the case may be) or the contemplated transaction.

6. Indemnities

The Vendor shall not be liable in respect of a specific indemnity claim (with regards to identified matters in the AAAGL SSPA relating to the conduct of the AAAGL Group's business prior to completion of the Proposed AAAGL Acquisition and any other specific indemnities as may be mutually agreed upon completion of the due diligence exercise on the AAAGL Group by the Purchaser) if it does not exceed RM5,000,000 and in respect of a special claim (with regards to ongoing litigation proceedings on taxation involving AirAsia (India) Limited) if it does not exceed RM65,000,000. Where the liability exceeds such thresholds, the Vendor shall be liable for the whole amount and not merely the excess over the thresholds. A notice of the specific indemnity claim or the special claim (as the case may be) shall be given by the Purchaser to the Vendor within 24 months following the completion of the Proposed AAAGL Acquisition.

The Vendor will indemnify the Purchaser and hold the Purchaser and AAAGL Group harmless against:-

(i) any taxation amount (whether or not already assessed or imposed or which may from time to time be assessed or imposed by the relevant governmental authority on the AAAGL Group after completion of the Proposed AAAGL Acquisition) in respect of taxation liabilities of any entities within the AAAGL Group for the period up to the date of completion of the Proposed AAAGL Acquisition, except insofar as full provision is made for such liabilities in the accounts of any entities within the AAAGL Group;

(ii) any claim for income tax in respect of any dividend paid or any distribution made by any entities within the AAAGL Group before the date of completion of the Proposed AAAGL Acquisition, except insofar as full provision is made for such liabilities in the accounts of any entities within the AAAGL Group;

(iii) any settlement of any actual or threatened claim, demand, direction, apportionment, assessment, recovery or counter-claim of any entities within the AAAGL Group in respect of taxation liabilities of any entities within the AAAGL Group for the period up to the date of completion of the Proposed AAAGL Acquisition;

(iv) any amount recovered against any entities within the AAAGL Group in respect of the taxation liabilities of any entities within the AAAGL Group for the period up to the date of completion of the Proposed AAAGL Acquisition; and

(v) any costs reasonably incurred by any entities within the AAAGL Group in contesting or settling any claim, demand, direction, apportionment, assessment, recovery or counter-claim as aforesaid, whether threatened or made, in respect of taxation liabilities of any entities within the AAAGL Group for the period up to the date of completion of the Proposed AAAGL Acquisition.

7. Limitation of liability in respect of breach of warranties

7.1 Either party to the AAAGL SSPA shall not have liability in respect of any claims arising from the breach of its warranties ("**AAAGL Claim**") to the extent that the facts, matter or circumstances giving rise to the AAAGL Claim are disclosed in its disclosure letter and the AAAGL SSPA.

7.2 **Time limitation:** Either party to the AAAGL SSPA shall not be liable under the AAAGL SSPA in respect of any AAAGL Claim unless a notice of the AAAGL Claim is given by the other party:-

(i) in the case of any AAAGL Claim relating to tax matters, within the applicable limitation period as stipulated under the relevant laws relating to taxation;

(ii) in the case of any AAAGL Claim relating to the fundamental warranties (as identified in the AAAGL SSPA), within 6 years following completion of the Proposed AAAGL Acquisition; or

(iii) in the case of any other AAAGL Claim, within 24 months following completion of the Proposed AAAGL Acquisition.

7.3 **Minimum claims:** Subject to aggregate minimum claims in Section 7.4 of this Appendix II(A), either party to the AAAGL SSPA shall not be liable in respect of an AAAGL Claim under the AAAGL SSPA in respect of any individual AAAGL Claim (provided that AAAGL Claims in respect of similar facts and circumstances may be aggregated for this purpose) where the liability in respect of any such AAAGL Claim does not exceed 0.1%[(1)] of the AAAGL Purchase Consideration (i.e. RM3,000,000). Where the liability exceeds such threshold, the defaulting party shall be liable for the whole amount and not merely the excess over the said threshold.

Note:-
(1) The threshold of 0.1% was arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.4 **Aggregate minimum claims:** Either party to the AAAGL SSPA shall not be liable under the AAAGL SSPA in respect of any AAAGL Claim (excluding AAAGL Claim for which liability is excluded under Section 7.3 of this Appendix II(A)) unless and until the aggregate amount of all such AAAGL Claims exceeds 1%[(1)] of the AAAGL Purchase Consideration (i.e. RM30,000,000). Where the liability exceeds such threshold, the defaulting party shall be liable for the whole amount and not just the excess over the said threshold.

Note:-
(1) The threshold of 1% was arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.5 **Maximum liability:** The aggregate liability of either party to the AAAGL SSPA in respect of all AAAGL Claims under the AAAGL SSPA shall not exceed:-

(i) 100%[(1)] of the AAAGL Purchase Consideration (i.e. RM3,000,000,000) in the case of any AAAGL Claim relating to the fundamental warranties (as identified in the AAAGL SSPA); and

(ii) 25%[(1)] of the AAAGL Purchase Consideration (i.e. RM750,000,000) in the case of any other AAAGL Claim.

Note:-
(1) The thresholds of 100% and 25% were arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.6 None of the limitations above shall apply to any AAAGL Claim which arises or is increased or is delayed as the consequence of fraud or wilful concealment by either party to the AAAGL SSPA or any of its directors, officers, employees, agents, advisers, representatives or successors in title of such party.

8. Non-competition and protective covenants

The Vendor undertakes that it will not, and will procure that Capital A and its subsidiaries ("**Vendor Group**") will not during the period commencing on the date of completion of the Proposed AAAGL Acquisition and ending on the date falling 5 years after the completion of the Proposed AAAGL Acquisition:-

(i) carry on in, be engaged in, or hold a substantial shareholding or equity interest (save for the equity interest held in the Purchaser) in, either directly or indirectly, in any capacity, in any trade, business or occupation, or in any manner take part in or lend its name, counsel or assistance to any person in any capacity whatsoever, for any purpose, in any other business or activity which is same or similar to or competing with the AAAGL Prohibited Business[(1)];

(ii) canvass, solicit, entice away, induce or encourage any employee or consultant or customer, the custom of the AAAGL Group and/or their affiliates to curtail, terminate or cease their employment or affiliation or custom / business with the AAAGL Group; and

(iii) be engaged in any act which is premeditated or in preparation or in readiness to effect or put in place any of the matters set out in paragraphs 8(i) and 8(ii) above,

provided that (i) the covenants under this paragraph 8 shall only take effect following and subject to completion of the Proposed AAAGL Acquisition and (ii) the covenants under this paragraph 8 shall not apply in respect of any member within the Vendor Group which is involved in the AAAGL Prohibited Business[(1)] as at the date of the AAAGL SSPA. In this respect, the Vendor represents, warrants and confirms that the only entities within the Vendor Group which are involved in the AAAGL Prohibited Business[(1)] (other than the AAAGL Group) are the AAB Group.

<u>Note:-</u>

*(1) "**AAAGL Prohibited Business**" means the current aviation business operations of the Purchaser and the AAAGL Group, which is the provision of domestic or international air transportation services which includes the medium to long-haul flights, short-haul flights and commercial flights, but excluding any existing business operations of the Vendor Group provided that the Vendor Group does not include the AAAGL Group.*

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The salient terms of the AAB SSPA are as follows:-

1. Sale and purchase of the entire AAB Equity Interest

On and subject to the terms of the AAB SSPA, the Vendor agrees to sell, and the Purchaser agrees to purchase the entire equity interest (including any forms of capital contribution and any unissued capital) in AAB.

The entire AAB Equity Interest shall be sold by the Vendor free from encumbrances (save as disclosed in the Vendor's disclosure letter in respect of the AAB SSPA[(1)]) and together with all rights and advantages attaching to them as at completion of the Proposed AAB Acquisition (including the right to receive all dividends and distributions declared, made or paid on or after the said completion).

Note:-

(1) On 21 August 2024, AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, had entered into definitive agreements with aircraft lessors and private credit funds for the issuance by AirAsia RB 1 Ltd, of Regulation S (under the US Securities Act) secured bonds of up to USD443.0 million, due September 2026 and August 2028, with AAB as a third party security provider, and both AAB and Capital A as corporate guarantors. Bank Negara Malaysia has vide its letters dated 26 March 2024 and 4 July 2024 approved the issuance of the bonds together with the proposed security under Bank Negara Malaysia's Foreign Exchange Policy. The bonds were issued on 23 August 2024.

As part of the terms of the issuance of the bonds, there will be a first ranking share charge over 49% of the shares of AAB held by our Company upon completion of the Proposed Acquisitions.

The salient terms of the bonds are set out in Appendix II(C) of this Circular. Further information on the bonds is set out in Section 10 of Appendix V of this Circular.

2. AAB Purchase Consideration

The consideration for the sale and purchase of the entire AAB Equity Interest under the AAB SSPA shall be RM3,800,000,000 which is to be satisfied by the Purchaser's assumption of the amount owing by the Vendor to AAB.

The Debt Settlement shall result in the following events occurring simultaneously:-

(i) AAB fully releasing the Vendor from the liability for the payment of the amount owing by the Vendor to AAB of RM3,800,000,000; and

(ii) the Purchaser fully assuming the liability for the payment of the amount owing by the Vendor to AAB of RM3,800,000,000,

by way of the issue of a promissory note from the Purchaser to AAB, which will substitute and cancel the existing promissory note issued by the Vendor to AAB.

3. AAB Conditions Precedent

3.1 The obligations of the parties to the AAB SSPA to consummate the transactions contemplated by the AAB SSPA are subject to the satisfaction or fulfilment, or mutual written waiver, on or before the AAB Cut-Off Date (as defined below), of each of the following conditions precedent (collectively, the "**AAB Conditions Precedent**"):-

(i) the approval of the shareholders of the Vendor being obtained at an EGM to be convened for the Proposed AAB Acquisition;

(ii) the approval of the holders of the Capital A RCUIDS being obtained for the Proposed AAB Acquisition;

(iii) the approval / consent of the governmental entity, financiers / lenders or any third party, as may be necessary, being obtained by (where applicable) the Vendor, the Vendor's subsidiaries or the relevant entity within the AAB Group for the Vendor's Pre-Completion Restructuring and Proposed AAB Acquisition as set out below:-

(a) MAVCOM with regards to the proposed change in shareholding of AAB;

(b) (1) (A) agreement between the parties to the AAB SSPA after consultation with the MAVCOM or the CAAM or any successor thereof (as the case may be) or (B) the confirmation or concurrence of MAVCOM or CAAM or any successor thereof (as the case may be), that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not applicable to the Proposed AAB Acquisition; or

(2) a decision is issued by MAVCOM or CAAM or any successor thereof (as the case may be) that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not infringed if the Proposed AAB Acquisition is carried into effect;

(c) Bank Negara Malaysia, Foreign Exchange Administration with regards to the AAAGL Debt Novation;

(d) financiers / lenders in respect of the Capital A RCUIDS as well as banking facilities granted to certain subsidiaries of Capital A;

(e) third parties in respect of certain aircraft lease as well as operational agreements;

(f) notification to third parties and financiers / lenders in respect of certain operational agreements and banking facilities;

(g) any other approvals, waivers or consents of and/or notifications to any authorities or parties as may be required by law or regulation or deemed necessary and mutually agreed by the parties to the AAB SSPA; and

(h) the approvals and/or consents of lenders / financiers of the relevant entity within the AAB Group for the release and/or discharge of any corporate guarantee and/or security provided by the Vendor or its group of companies (excluding the AAB Group) in favour of lenders / financiers of the relevant entity within the AAB Group shall be obtained before the date of completion of the Proposed AAB Acquisition. For the avoidance of doubt, Capital A and AAX agree that they shall not be entitled to waive this condition precedent;

(iv) the completion of the Vendor's Pre-Completion Restructuring;

(v) the AAB Group collectively does not incur or record an aggregate loss exceeding RM50,000,000[(1)] during the 3-month period immediately preceding the date of completion of the Proposed AAB Acquisition;

Note:-

(1) Together with the conditions precedent in the AAAGL SSPA, the AAAGL Group and AAB Group shall not incur or record an aggregate loss exceeding RM100.00 million during the 3-month period immediately preceding the dates of completion of the Proposed Acquisitions. The amount of RM100.00 million is determined based on 10% of the total gross proceeds of RM1,000.00 million to be raised from the Proposed Private Placement.

(vi) the completion of the due diligence exercise comprising examination and verification of the financial, legal and other affairs of the AAB Group by accountants, valuers, solicitors or such other professionals (if required) and the results of the due diligence exercise being reasonably satisfactory to the Purchaser;

(vii) your approval being obtained at an EGM to be convened for the Proposed AAB Acquisition;

(viii) the approval / consent of the governmental entity, financiers / lenders or any third party, as may be necessary, being obtained by (where applicable) the Purchaser or any of the Purchaser's subsidiaries for the Proposed AAB Acquisition as set out below:-

(a) (1) (A) agreement between the parties to the AAB SSPA after consultation with the MAVCOM or the CAAM or any successor thereof (as the case may be) or (B) the confirmation or concurrence of MAVCOM or CAAM or any successor thereof (as the case may be), that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not applicable to the Proposed AAB Acquisition; or

(2) a decision is issued by MAVCOM or CAAM or any successor thereof (as the case may be) that Section 54(1) of the MAVCOM Act or Section 36T(1) of the CAAM Act (as the case may be) is not infringed if the Proposed AAB Acquisition is carried into effect;

(b) Bursa Securities for the listing and quotation of the Placement Shares on the Main Market of Bursa Securities; and

(c) any other approvals, waivers or consents of and/or notifications to any authorities or parties as may be required by law or regulation or deemed necessary and mutually agreed by the parties to the AAB SSPA; and

(ix) the Purchaser raising RM1,000,000,000 within the financial year ending 31 December 2024, pursuant to the placement letter(s) or commitment letter(s) or agreement(s) (as the case may be) executed by the Purchaser and the identified investors in relation to the Proposed Private Placement.

"**AAB Cut-Off Date**" means –

(i) 6 months after the date of the AAB SSPA for the AAB Conditions Precedent (save for AAB Condition Precedent referred to in paragraph 3.1(vi) above); and

(ii) for the AAB Condition Precedent referred to in paragraph 3.1(vi) above, 60 days after the date of the AAB SSPA with an automatic extension for a further period of 60 days,

or such other date as mutually agreed between the parties to the AAB SSPA in writing.

3.2 If the AAB Conditions Precedent are not satisfied or waived on or before 5:00 p.m. on the AAB Cut-Off Date, the parties to the AAB SSPA may, acting reasonably and by mutual agreement in writing extend the AAB Cut-Off Date or failing agreement to extend, the AAB SSPA (other than the surviving provisions as stipulated in the AAB SSPA) shall lapse and consequently each party to the AAB SSPA shall have no claim against the other party, save for a claim arising out of antecedent breaches of the AAB SSPA.

3.3 Between the date of the AAB SSPA and completion of the Proposed AAB Acquisition, and except for the Proposed AAAGL Acquisition, Proposed Issuance of Free Warrants, Proposed Private Placement and Proposed Granting of Subscription Options, the Purchaser agrees that unless the prior written approval of the Vendor has been obtained, it shall not seek and/or obtain its shareholders' approval for the Purchaser to undertake any corporate exercise or approve any proposed amendment(s) to any existing corporate exercise(s) which has the effect of increasing or enlarging the number of shares of the Purchaser, including, without limitation, any issue of shares or other securities convertible into shares or securities with rights to acquire or subscribe for shares or other securities in consideration or part consideration for or in connection with the acquisition of any securities, assets or business, failing which, the Vendor may terminate the AAB SSPA (other than the surviving provisions as stipulated in the AAB SSPA) at any time prior to completion of the Proposed AAB Acquisition with the Vendor's interest in the entire AAB Equity Interest intact.

4. Completion of the Proposed AAB Acquisition

4.1 Completion of the sale and purchase of the entire AAB Equity Interest under the AAB SSPA shall take place 1 month following the date on or by which all AAB Conditions Precedent have been satisfied, fulfilled and/or waived other than those AAB Conditions Precedent that by their nature are to be satisfied at completion of the Proposed AAB Acquisition (and have been satisfied, fulfilled and/or waived at completion of the Proposed AAB Acquisition) or at such other time as the parties to the AAB SSPA may mutually agree in writing.

4.2 If any provision of the completion clause under the AAB SSPA is not fully complied with, the Purchaser, in the case of a default or non-compliance by the Vendor, or the Vendor, in the case of a default or non-compliance by the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available to it):-

(i) to effect completion of the Proposed AAB Acquisition so far as practicable having regard to the defaults which have occurred; or

(ii) to fix a new date for completion of the Proposed AAB Acquisition not being later than 1 month after the intended date of completion of the Proposed AAB Acquisition, on the basis that such deferral may only occur once; or

(iii) to terminate the AAB SSPA (other than the surviving provisions as stipulated in the AAB SSPA and save in respect of rights arising out of any antecedent breach of the AAB SSPA including with respect to a breach of the relevant completion obligations) without liability on the part of the non-defaulting party with the Vendor's interest in the entire AAB Equity Interest intact.

4.3 Notwithstanding the above, each party to the AAB SSPA shall be at liberty to take such action in law as may be necessary to compel the other party by way of specific performance to complete the transaction contemplated in the AAB SSPA (in which respect the alternative remedy of monetary compensation shall not be regarded as compensation or sufficient compensation for any default of a party in the performance of the terms and conditions in the AAB SSPA) or to claim damages for the breach of the other party.

5. Right to claim for breach of warranties

Each party to the AAB SSPA has a right to claim for breach of warranties by the other party only following and subject to completion of the Proposed AAB Acquisition. In the event the said completion does not occur and the AAB SSPA is terminated, the non-defaulting party shall not be able to claim against the defaulting party for breach of warranties save for antecedent breaches under the AAB SSPA.

Nevertheless, the non-defaulting party has the right to terminate the AAB SSPA at any time prior to the completion of the Proposed AAB Acquisition in any of the following events:-

(i) the non-defaulting party becomes aware that any of the defaulting party's warranties was untrue or inaccurate; or

(ii) any inconsistency with the warranties given by the defaulting party is discovered; and/or

(iii) an AAB Material Adverse Change[(1)] has occurred; or

(iv) any other breach on the part of the defaulting party of the terms of the AAB SSPA occurring.

Note:-

*(1) An "**AAB Material Adverse Change**" means any occurrence, condition, change, event or effect that is materially adverse to the AAB Group or our Company and our subsidiaries (as the case may be), taken as a whole, which results in an impact on the financial position or profit / loss after tax of the group of RM65,000,000 or more, provided that none of the following constitutes an AAB Material Adverse Change:-*

(i) any occurrence, condition, change, event or effect resulting from or relating to changes in general economic conditions or financial market conditions (whether relating to equity, debt or currencies);

(ii) the occurrence of any natural disasters, pandemics and acts of terrorism, except in the event, and only to the extent, of any damage or destruction to or loss of the physical properties of the AAB Group or our Company and our subsidiaries (as the case may be);

(iii) any occurrence, condition, change, event or effect resulting from or relating to:-

(a) the announcement or pendency of the proposed sale and/or purchase of the entire AAB Equity Interest (whichever applicable);

(b) compliance by any party to the AAB SSPA with the terms of the AAB SSPA; and

(c) actions made by any party to the AAB SSPA which are expressly contemplated and permitted by the AAB SSPA, or if not so permitted, otherwise consented to by the Vendor and the Purchaser in writing; and

(iv) any change in laws, regulations, rules or administrative practices of any governmental entity, including a change in tax regime or treatment or the introduction of currency controls which have an effect on the AAB Group or our Company and our subsidiaries (as the case may be) or the contemplated transaction.

6. Indemnities

The Vendor shall not be liable in respect of a specific indemnity claim (with regards to identified matters in the AAB SSPA relating to the conduct of the AAB Group's business prior to completion of the Proposed AAB Acquisition and any other specific indemnities as may be mutually agreed upon completion of the due diligence exercise on the AAB Group by the Purchaser) if it does not exceed RM5,000,000 and in respect of a special claim (with regards to (1) arbitration and litigation proceedings on shareholder disputes in relation to Big Pay Pte Ltd and (2) ongoing litigation proceedings on taxation involving AirAsia (India) Limited) if it does not exceed RM65,000,000. Where the liability exceeds such thresholds, the Vendor shall be liable for the whole amount and not merely the excess over the thresholds. A notice of the specific indemnity claim or the special claim (as the case may be) shall be given by the Purchaser to the Vendor within 24 months following the completion of the Proposed AAB Acquisition.

The Vendor will indemnify the Purchaser and hold the Purchaser and AAB Group harmless against:-

(i) any taxation amount (whether or not already assessed or imposed or which may from time to time be assessed or imposed by the relevant governmental authority on the AAB Group after completion of the Proposed AAB Acquisition) in respect of taxation liabilities of any entities within the AAB Group for the period up to the date of completion of the Proposed AAB Acquisition, except insofar as full provision is made for such liabilities in the accounts of any entities within the AAB Group;

(ii) any claim for income tax in respect of any dividend paid or any distribution made by any entities within the AAB Group before the date of completion of the Proposed AAB Acquisition, except insofar as full provision is made for such liabilities in the accounts of any entities within the AAB Group;

(iii) any settlement of any actual or threatened claim, demand, direction, apportionment, assessment, recovery or counter-claim of any entities within the AAB Group in respect of taxation liabilities of any entities within the AAB Group for the period up to the date of completion of the Proposed AAB Acquisition;

(iv) any amount recovered against any entities within the AAB Group in respect of the taxation liabilities of any entities within the AAB Group for the period up to the date of completion of the Proposed AAB Acquisition; and

(v) any costs reasonably incurred by any entities within the AAB Group in contesting or settling any claim, demand, direction, apportionment, assessment, recovery or counter-claim as aforesaid, whether threatened or made, in respect of taxation liabilities of any entities within the AAB Group for the period up to the date of completion of the Proposed AAB Acquisition.

7. Limitation of liability in respect of breach of warranties

7.1 Either party to the AAB SSPA shall not have liability in respect of any claims arising from the breach of its warranties ("**AAB Claim**") to the extent that the facts, matter or circumstances giving rise to the AAB Claim are disclosed in its disclosure letter and the AAB SSPA.

7.2 **Time limitation:** Either party to the AAB SSPA shall not be liable under the AAB SSPA in respect of any AAB Claim unless a notice of the AAB Claim is given by the other party:-

(i) in the case of any AAB Claim relating to tax matters, within the applicable limitation period as stipulated under the relevant laws relating to taxation;

(ii) in the case of any AAB Claim relating to the fundamental warranties (as identified in the AAB SSPA), within 6 years following completion of the Proposed AAB Acquisition; or

(iii) in the case of any other AAB Claim, within 24 months following completion of the Proposed AAB Acquisition.

7.3 **Minimum claims:** Subject to aggregate minimum claims in Section 7.4 of this Appendix II(B), either party to the AAB SSPA shall not be liable in respect of an AAB Claim under the AAB SSPA in respect of any individual AAB Claim (provided that AAB Claims in respect of similar facts and circumstances may be aggregated for this purpose) where the liability in respect of any such AAB Claim does not exceed 0.1%[(1)] of the AAB Purchase Consideration (i.e. RM3,800,000). Where the liability exceeds such threshold, the defaulting party shall be liable for the whole amount and not merely the excess over the said threshold.

Note:-
(1) The threshold of 0.1% was arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.4 **Aggregate minimum claims:** Either party to the AAB SSPA shall not be liable under the AAB SSPA in respect of any AAB Claim (excluding AAB Claim for which liability is excluded under Section 7.3 of this Appendix II(B)) unless and until the aggregate amount of all such AAB Claims exceeds 1%[(1)] of the AAB Purchase Consideration (i.e. RM38,000,000). Where the liability exceeds such threshold, the defaulting party shall be liable for the whole amount and not just the excess over the said threshold.

Note:-
(1) The threshold of 1% was arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.5 **Maximum liability:** The aggregate liability of either party to the AAB SSPA in respect of all AAB Claims under the AAB SSPA shall not exceed:-

(i) 100%[(1)] of the AAB Purchase Consideration (i.e. RM3,800,000,000) in the case of any AAB Claim relating to the fundamental warranties (as identified in the AAB SSPA); and

(ii) 25%[(1)] of the AAB Purchase Consideration (i.e. RM950,000,000) in the case of any other AAB Claim.

Note:-
(1) The thresholds of 100% and 25% were arrived at after negotiations between our Company and Capital A, having taken into consideration market practices.

7.6 None of the limitations above shall apply to any AAB Claim which arises or is increased or is delayed as the consequence of fraud or wilful concealment by either party to the AAB SSPA or any of its directors, officers, employees, agents, advisers, representatives or successors in title of such party.

8. Non-competition and protective covenants

The Vendor undertakes that it will not, and will procure that the Vendor Group will not during the period commencing on the date of completion of the Proposed AAB Acquisition and ending on the date falling 5 years after the completion of the Proposed AAB Acquisition:-

(i) carry on in, be engaged in or hold a substantial shareholding or equity interest (save for the equity interest held in the Purchaser) in, either directly or indirectly, in any capacity, in any trade, business or occupation, or in any manner take part in or lend its name, counsel or assistance to any person in any capacity whatsoever, for any purpose, in any other business or activity which is same or similar to or competing with the aviation business operations of the AAB Prohibited Business[(1)];

(ii) canvass, solicit, entice away, induce or encourage any employee or consultant or customer, the custom of the AAB Group and/or their affiliates to curtail, terminate or cease their employment or affiliation or custom / business with the AAB Group; and

(iii) be engaged in any act which is premeditated or in preparation or in readiness to effect or put in place any of the matters set out in paragraphs 8(i) and 8(ii) above,

provided that (i) the covenants under this paragraph 8 shall only take effect following and subject to completion of the Proposed AAB Acquisition and (ii) the covenants under this paragraph 8 shall not apply in respect of any member within the Vendor Group which is involved in the AAB Prohibited Business[(1)] as at the date of the AAB SSPA. In this respect, the Vendor represents, warrants and confirms that the only entities within the Vendor Group which are involved in the AAB Prohibited Business[(1)] (other than the AAB Group) are the AAAGL Group.

<u>Note:-</u>

*(1) "**AAB Prohibited Business**" means the current aviation business operations of the Purchaser and the AAB Group, which is the provision of domestic or international air transportation services which includes the medium to long-haul flights, short-haul flights and commercial flights, but excluding any existing business operations of the Vendor Group provided that the Vendor Group does not include the AAB Group.*

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The salient terms of the bonds are as follows:-

1. Issuance of bonds and intercompany loan

On and subject to the terms of the transaction documents for the bonds ("**Bonds Transaction Documents**"), AAB's wholly-owned subsidiary, AirAsia RB 1 Ltd, has agreed to issue Regulation S secured bonds as follows:-

(i) Tranche 1 representing USD242,907,000.00 7.00% bonds due September 2026 ("**Tranche 1 Notes**"); and

(ii) Tranche 2 representing USD200,000,000.00 14.00% bonds due August 2028 ("**Tranche 2 Notes**").

Pursuant to the terms of Bonds Transaction Documents, AirAsia RB 1 Ltd subsequently on-lends the proceeds of the bonds to AAB for AAB to refinance its lease liabilities, aircraft and engine maintenance costs, and to support the working capital requirements of AAB, Capital A and all of their affiliates.

2. Guarantee and security

The bonds are guaranteed by AAB and Capital A as corporate guarantors ("**Bonds Corporate Guarantees**"). It is a term of the bonds that Capital A will be released as a corporate guarantor upon fulfilment of the conditions for substitution and release pursuant to the terms and conditions of the trust deed dated 21 August 2024, constituting the bonds, which includes the replacement of our Company as a corporate guarantor for the bonds upon completion of the Proposed Acquisitions. The reference to "**Bonds Corporate Guarantors**" shall refer to (a) AAB; (b) Capital A, prior to the completion of the Proposed Acquisitions; and (c) our Company, upon completion of the Proposed Acquisitions.

The bonds and/or the Bonds Corporate Guarantees (as the case may be) are also secured by, amongst others:-

(i) as security for the Bonds Corporate Guarantees:-

(a) a first ranking assignment by AAB over all present and future revenue proceeds generated by AAB from passenger seat sales (including fuel surcharges) and ancillary revenue from the selected specified routes ("**Secured Routes**") after deduction of any refunds, airport taxes, merchant discount fees and bank charges which are held by AAB ("**Revenue Proceeds**"); and

(b) a floating charge by AAB over certain sub-accounts of AAB's general operating account ("**Sub-General Accounts**"), which shall receive the Revenue Proceeds generated by AAB through distribution channels other than AirAsia Move app;

(ii) as security for the bonds:-

(a) a first ranking share charge by AAB over 100% of the shares of AirAsia RB 1 Ltd held; and

(b) a first ranking charge and assignment over all present and future interest, rights, benefits, titles and assets of AirAsia RB 1 Ltd including:-

(1) the intercompany loan between AirAsia RB 1 Ltd and AAB;

(2) the designated operating account ("**Designated AOC Operating Account**") which shall be established in the name of AirAsia RB 1 Ltd to capture certain Revenue Proceeds generated by AAB through AirAsia Move app ("**SuperApp Revenue Proceeds**");

(3) the revenue reserve account ("**Reserve Account**") which shall be established in the name of AirAsia RB 1 Ltd and certain funds (including amounts derived from Revenue Proceeds) will be required to be retained in that account from time to time; and

(4) upon completion of the Proposed Acquisitions, a first ranking share charge by our Company in respect of 49% of the shares of AAB held.

3. Ranking

The bonds are direct, unconditional and secured obligations of AirAsia RB 1 Ltd and rank and will rank *pari passu*, without any preference among themselves, and rank and will rank in priority to all other outstanding unsecured and unsubordinated obligations of AirAsia RB 1 Ltd, present and future, but, in the event of insolvency, only to the extent permitted by the relevant applicable laws relating to creditors' rights.

4. Redemption

4.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as provided in the Bonds Transaction Documents, AirAsia RB 1 Ltd must redeem the bonds at their relevant maturity dates.

4.2 Redemption by instalments

Tranche 1 Notes

Unless previously redeemed or purchased and cancelled in full, AirAsia RB 1 Ltd will, having given not less than 5 business days' notice to the noteholders of the Tranche 1 Notes ("**Tranche 1 Noteholders**"), on each payment date in respect of the Tranche 1 Notes falling between the period between 30 September 2024 up to (and including the) maturity date, redeem all or some only of the Tranche 1 Notes then outstanding at their principal amount together with interest accrued (calculated based on simple interest methodology, and on a non-compounding basis) to but excluding the date of redemption and in an amount as specified in the Bonds Transaction Documents until the principal amount of the Tranche 1 Notes is reduced to zero.

Tranche 2 Notes

Unless previously redeemed or purchased and cancelled in full, AirAsia RB 1 Ltd will, having given not less than 5 business days' notice to the noteholders of the Tranche 2 Notes ("**Tranche 2 Noteholders**"), on each payment date in respect of the Tranche 2 Notes falling between the period from (and including) the first payment date in respect of the Tranche 2 Notes to occur after (but not on) the date on which the Tranche 1 Notes have been redeemed in full, to (and including) the payment date on which the Tranche 2 Notes are redeemed in full, pay such specified amount under the Bonds Transaction Documents, toward redeeming the Tranche 2 Notes until the principal amount of the Tranche 2 Notes is reduced to zero.

4.3 Redemption upon Change of Control Early Redemption Event[(1)]

Unless previously redeemed or purchased and cancelled in full, upon the occurrence of a Change of Control Early Redemption Event, AirAsia RB 1 Ltd will redeem all (but not some only) of the bonds, at a redemption price equal to 100% of the principal amount thereof plus accrued interest on the date of the redemption pursuant to the Change of Control Early Redemption Event and plus such other specified amount as may be specified under the Bonds Transaction Documents.

Note:-

*(1) **"Change of Control Early Redemption Event"** means that Tan Sri Tony Fernandes and Datuk Kamarudin ceasing to collectively beneficially own, directly or indirectly, at least 15% in aggregate of the total shares in the share capital of AAB, and the parent of AAB from time to time.*

4.4 Redemption for taxation reasons

If AirAsia RB 1 Ltd or the Bonds Corporate Guarantors satisfies the trustee immediately before the giving of the notice referred to below that:-

(i) as a result of any change in, or amendment to, the laws or regulations, or any change in the application or official interpretation of the laws or regulations, on the next payment date, AirAsia RB 1 Ltd would be required to pay additional amounts as provided or referred to under the Bonds Transaction Documents for an affected tranche of bonds ("**Affected Tranche(s)**"); and

(ii) the requirement cannot be avoided by AirAsia RB 1 Ltd taking reasonable measures available to it,

AirAsia RB 1 Ltd or the Bonds Corporate Guarantors may at its option, having given not less than 30 nor more than 60 days' notice to the noteholders of such Affected Tranche(s), redeem all the bonds comprised in the Affected Tranche(s), but not some only, on the next payment date at their principal amount together with interest accrued to but excluding the date of redemption and in the case of any Tranche 2 Notes, such specified amount under the Bonds Transaction Documents, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which AirAsia RB 1 Ltd would be obliged to pay such additional amounts, were a payment in respect of such Affected Tranche of bonds then due.

4.5 Mandatory redemption upon prepayment of intercompany loan

Tranche 1 Notes

Under the terms of the Bonds Transaction Documents, AAB is permitted to prepay the intercompany loan corresponding to the Tranche 1 Notes at any time, whether in part or in full, upon not less than 15 nor more than 30 days' notice to AirAsia RB 1 Ltd and the trustee (such notice being a "**Tranche 1 Loan Prepayment Notice**"). In the event that a Tranche 1 Loan Prepayment Notice is received by AirAsia RB 1 Ltd, then AirAsia RB 1 Ltd must, amongst others, within 5 business days of receipt of the actual proceeds of the relevant prepayment of the Tranche 1 intercompany loan, apply all such proceeds received toward redemption of the Tranche 1 Notes, depending upon the amount of proceeds actually received at their principal amount and payment of interest accrued thereon to the date of redemption.

Tranche 2 Notes

Under the terms of the Bonds Transaction Documents, AAB is permitted to prepay the intercompany loan corresponding to the Tranche 2 Notes at any time, whether in part or in full, upon not less than 15 nor more than 30 days' notice to AirAsia RB 1 Ltd and the trustee (such notice being a "**Tranche 2 Loan Prepayment Notice**"). In the event that a Tranche 2 Loan Prepayment Notice is received by AirAsia RB 1 Ltd, then AirAsia RB 1 Ltd must, amongst others, within 5 business days of receipt of the actual proceeds of the relevant prepayment of the Tranche 2 intercompany loan, apply all such proceeds received toward redemption of the Tranche 2 Notes only, depending upon the amount of proceeds actually received in respect of the Tranche 2 Notes at such redemption amounts as may be specified in the Bonds Transaction Documents.

5. Salient covenants in respect of the Revenue Proceeds

Amongst others, AirAsia RB 1 Ltd and the Bonds Corporate Guarantors (collectively, the "**Obligors**") have jointly and severally, covenant with the trustee that, for so long as any bonds remain outstanding, it shall procure compliance by AAB of the following covenants in respect of the bonds:-

(i) AAB undertakes that an amount equal to the aggregate of all SuperApp Revenue Proceeds shall be paid directly into a Designated AOC Operating Account no later than 7 days following booking by, or on behalf of, AAB in accordance with terms of the Bonds Transaction Documents.

(ii) On or prior to the issue date of the bonds, AAB has entered into tripartite agreements with identified counterparties and vendors of AAB in respect of the control and transmission of the SuperApp Revenue Proceeds into the Designated AOC Operating Account upon booking by, or on behalf of, AAB.

(iii) AAB undertakes that the aggregate amount of SuperApp Revenue Proceeds paid into the Designated AOC Operating Account during each quarter will be at least equal to such specified amount in the Bonds Transaction Documents (such amount being the "**Minimum SuperApp Proceeds**"), provided that AAB shall not be in breach of this undertaking and the relevant Minimum SuperApp Proceeds Shortfall will not trigger an event of default in the event the aggregate amount of SuperApp Revenue Proceeds paid into the Designated AOC Operating Account during the immediately prior quarter is less than the Minimum SuperApp Proceeds (the amount of any such shortfall being a "**Minimum SuperApp Proceeds Shortfall**").

(iv) In the case of a Minimum SuperApp Proceeds Shortfall, AAB shall procure that the aggregate of the credit balances of the Sub-General Accounts during the following quarter is at least equal to the Minimum SuperApp Proceeds Shortfall in respect of that following quarter (such amount being the "**Minimum Sub-General Account Balance**"), provided that, for so long as the aggregate of the cash balance standing to the credit of the Designated AOC Operating Account and the Reserve Account (excluding such specified amounts which have been specifically earmarked under the Bonds Transaction Documents)) is at least equal to such specified minimum amount under the Bonds Transaction Documents, AAB will have no obligation under this undertaking to procure that the aggregate of the credit balances of the Sub-General Accounts is at least equal to the Minimum Sub-General Account Balance.

(v) If on any relevant test date there has been a Minimum SuperApp Proceeds Shortfall in respect of two consecutive quarters, AAB shall, amongst others, deliver an additional route designation notice identifying and designating additional flight routes ("**Additional Designated Routes**") to be included as Secured Routes, that will, based on performance in the immediately preceding quarter, result in the aggregate amount of SuperApp Revenue Proceeds (taking into account the revenue of such Additional Designated Routes) paid into the Designated AOC Operating Account during each subsequent calendar quarter being at least such specified minimum amount in the Bonds Transaction Documents, the Additional Designated Routes so identified shall be selected by AAB (in its sole discretion) from a list of pre-identified additional designated routes. For the avoidance of doubt, upon the fulfilment of conditions as may be specified under the Bonds Transaction Documents including where the SuperApp Revenue Proceeds during each of the four immediately preceding calendar quarters exceeds such specified sum under Bonds Transaction Documents, AAB may deliver an excluded route designated notice to the trustee to exclude any previously identified and designated Additional Designated Routes from the list of Secured Routes.

(vi) AAB undertakes that an amount equal to the aggregate of all Revenue Proceeds other than Super App Revenue Proceeds ("**Non-SuperApp Revenue Proceeds**") will be paid into the Sub-General Accounts by no later than the latter of the day falling (A) one business day following booking of the relevant sale and (B) one business day following receipt of such amount by AAB. To facilitate such payment of Non-SuperApp Revenue Proceeds, AAB shall ensure that:-

(a) after the issuance of the bonds, all contracts executed with and/or invoices in respect of Non-SuperApp Revenue Proceeds issued to customers, including travel agents, government agencies and corporates (collectively, "**Third Party Intermediaries"**), require that such amounts are paid directly into the Sub-General Accounts;

(b) to the extent that there are existing contracts or payment arrangements in respect of Non-SuperApp Revenue Proceeds in place with the Third Party Intermediaries before the additional route designation notice, all such contracts and payment arrangements shall be amended to require that such amounts are paid directly into the Sub-General Accounts; and

(c) all Non-SuperApp Revenue Proceeds (whether generated by cash, credit card, debit card payment or other payment methods) are deposited directly into the Sub-General Accounts by no later than the latter of the day falling (A) one business day following booking of the relevant sale and (B) one business day following receipt of such amount by AAB.

(vii) To the extent that there is a shortfall in respect of available funds to the cash manager on any payment date prior to any enforcement by the trustee, AAB shall, on or before the third business day immediately preceding each such payment date, transfer an amount from the Sub-General Accounts to the Designated AOC Operating Account equal to the lesser of:-

(a) such shortfall; and

(b) the aggregate amount of Non-SuperApp Revenue Proceeds that has been paid into the Sub-General Accounts during the quarter ending immediately before that payment date,

as may be specified under the Bonds Transaction Documents.

6. Salient events of default

The terms of the bonds include events of default which are customary and appropriate for transactions of this nature and subject to an agreed remedy period. These include, but not limited to the following:-

(i) if default is made by AirAsia RB 1 Ltd in the payment of any principal or interest due in respect of the bonds, unless (A) such default is caused by administrative or technical error or a disruption event; and (B) payment is made within 3 business days of the date on which such amount was due;

(ii) other than in respect of any amounts referred to in paragraph (i) above, if default is made by any party to a Bonds Transaction Document in the payment of any amount due by it under such Bonds Transaction Document and that default continues for a period exceeding 30 days;

(iii) if AAB fails to take such action as may be required to maintain the loan to value ratio in respect of the Secured Routes within the relevant cure dates;

(iv) if an Obligor fails to comply with any of its other obligations under the Bonds Transaction Documents and the failure continues for the period of 30 days after the service by the trustee on each of the relevant Obligors of notice requiring the same to be remedied;

(v) if (a) any financial indebtedness of the Obligors (excluding any financial indebtedness due and payable in respect of any leasing agreement which is due and payable prior to the issue date of the bonds) has been declared due and repayable prematurely by reason of an event of default (howsoever described) or (b) an Obligor fails to make any payment in respect of any financial indebtedness (excluding any financial indebtedness due and payable in respect of any leasing agreement which is due and payable prior to the issue date of the bonds) on the due date for payment as extended by any originally applicable grace period, provided that it will not be an event of default if the amount of the financial indebtedness falling within this paragraph (v)(a) or (v)(b) is (collectively) less than such specified threshold under the Bonds Transaction Documents;

(vi) any final judgment or order from which no further appeal or judicial review is permissible for the payment of money shall be rendered against AirAsia RB 1 Ltd or any Obligor in an amount in excess of such specified threshold under the Bonds Transaction Documents individually or in the aggregate for all such final judgments or orders against all such persons (treating any deductibles, self-insurance or retention as not so covered) and shall not be discharged, and there shall be any period of 30 consecutive days following entry of the final judgment or order in excess of such specified threshold under the Bonds Transaction Documents individually or in the aggregate during which a stay of enforcement of such final judgment or order, irrespective of reason, shall not be in effect;

(vii) an insolvency event occurs in respect of an Obligor or any subsidiary of an Obligor;

(viii) if any security document in respect of the bonds ceases to be, or is claimed by AirAsia RB 1 Ltd, any Obligor or any party to such security document not to be, in full force and effect or any security document does not create a security interest it purports to create;

(ix) if any approval granted by Bank Negara Malaysia to any Obligor in respect of the transactions contemplated by the Bonds Transaction Documents is revoked or any conditions of any such approval is breached, and such revocation or breach is continuing for 30 days after written notice thereof has been delivered to any Obligor; or

(x) any Obligor fails to comply with any of the specified conditions subsequent under the Bonds Transaction Documents to the issue of the bonds.

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APPENDIX III – SALIENT TERMS OF THE SUBSCRIPTION OPTION AGREEMENT

The salient terms of the Subscription Option Agreement are as follows:-

1. Subscription Options

Our Company agrees to grant to the Subscriber 3 Subscription Options of 4% each immediately after the completion of the Proposed Acquisitions, upon the terms and subject to the conditions of the Subscription Option Agreement.

The parties to the Subscription Option Agreement agree and acknowledge that:-

(i) each Subscription Option may be individually accepted in full or in part by the Subscriber at any point of time during a period of 24 months from the date of granting of the Subscription Option;

(ii) upon acceptance of a relevant Subscription Option by the Subscriber, the Subscription Option may be exercised by the Subscriber at any point of time during a period of 48 months from the date of granting of the relevant Subscription Option to subscribe for such number of Subscription Shares;

(iii) any Subscription Option not accepted or if accepted, but not exercised by the Subscriber within the stipulated period shall lapse and cease to be valid for any purpose; and

(iv) subject to adjustments pursuant to provisions in the Subscription Option Agreement, the actual number of Subscription Shares to be issued under each Subscription Option will depend on the total enlarged issued shares in our Company after the completion of the Proposed Acquisitions and the number of Subscription Shares subscribed by the Subscriber during the Subscription Option Period.

2. Conditions to Subscription Options

The granting of the Subscription Options by our Company to the Subscriber under the Subscription Option Agreement is conditional upon the following conditions:-

(i) your approval having been obtained for the Proposed Granting of Subscription Options; and

(ii) the approval from Bursa Securities having been obtained for the listing and quotation of the Subscription Shares pursuant to the exercise of the Subscription Options on the Main Market of Bursa Securities.

If any of these conditions are not fulfilled within 6 months from the date of the Subscription Option Agreement or such other period as mutually agreed by the parties to the Subscription Option Agreement, the Subscription Option Agreement shall not automatically terminate and shall subsist as long as it is required for the parties to the Subscription Option Agreement to enter into bona fide discussions on such alternative arrangements (including entering into new transaction document(s)) as may be fair and reasonable with the effect of allowing the Subscriber to have continuing rights to subscribe for such number of AAX Shares under the Previous Subscription Agreement (as defined in Section 7, Part A of this Circular) or the Subscription Option Agreement, as the case may be (“**New Transaction Document**”).

Upon execution of the New Transaction Document, the Subscription Option Agreement shall terminate and no party shall thereafter have any claim, further rights or obligations against the other party under the Subscription Option Agreement save for any antecedent breach or breach of any provisions expressly stated to continue to apply after termination of the Subscription Option Agreement. The parties to the Subscription Option Agreement further agree that notwithstanding the termination of the Subscription Option Agreement, the Previous Subscription Agreement shall continue to subsist and its termination shall be dealt with in the New Transaction Document.

3. Issue price of the Subscription Shares

The issue price of the Subscription Shares shall be the closing market price of our Shares as at the last Market Day prior to acceptance by the Subscriber of the grant of the relevant Subscription Option subject to adjustments pursuant to provisions in the Subscription Option Agreement. For the avoidance of doubt, as each Subscription Option granted may be individually accepted in full or in part by the Subscriber at any point of time during a period of 24 months from the date of granting of the Subscription Option, the date of acceptance of each Subscription Option and hence, the issue price of the Subscription Shares comprised in each Subscription Option may be different.

4. Ranking of the Subscription Shares

The Subscription Shares shall, upon allotment and issuance, rank equally in all respects with the then existing Shares, save and except that the holder of the Subscription Shares shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid to our Shareholders, the entitlement date of which is prior to the date of allotment and issuance of the Subscription Shares.

5. Termination of the Subscription Option Agreement

In the event that, at any time prior to the expiry of the Subscription Option Period, any party to the Subscription Option Agreement:-

(i) breaches the undertaking, covenant, representation or warranties expressed under the Subscription Option Agreement; or

(ii) fails, neglects or refuses to comply or to perform any of the material undertakings and covenants expressed under the Subscription Option Agreement,

then the non-defaulting party shall be entitled to give a notice in writing to the defaulting party specifying the default or breach, and requiring the defaulting party to remedy the said default or breach within 14 days of the receipt of such notice.

If the defaulting party fails to remedy the relevant default or breach within 14 days, the non-defaulting party shall be entitled to, without limiting any right or remedy available to the non-defaulting party at law or in equity (which includes the right to claim damages and to specific performance), serve a notice to the defaulting party to terminate the Subscription Option Agreement.

Upon termination of the Subscription Option Agreement, the Subscription Option Agreement shall be null and void and of no further force and neither party shall have any further rights against the other, save for any rights, claims or remedies already accrued to the non-defaulting party.

6. Termination of the Previous Subscription Agreement

Provided always that the Subscription Options in the Subscription Option Agreement shall remain valid and effective in accordance with the terms therein, the parties to the Subscription Option Agreement mutually agree to terminate the Previous Subscription Agreement, and the Previous Subscription Agreement shall cease to have any effect from the date on which the last of such conditions under Section 2 of this Appendix III being fulfilled or satisfied and none of the parties to the Subscription Option Agreement shall have any further claims against the other save and except for any antecedent breach.

For the avoidance of doubt, where the conditions under Section 2 of this Appendix III are not fulfilled or satisfied within 6 months from the date of the Subscription Option Agreement or such other period as mutually agreed by the parties to the Subscription Option Agreement, the parties agree and acknowledge that the Previous Subscription Agreement would not terminate, and the Subscriber shall have continuing rights to the Previous Subscription Option under the Previous Subscription Agreement.

1. HISTORY AND BUSINESS

AAAGL was incorporated in Labuan on 11 September 2003 under the Labuan Companies Act 1990 as a private limited company. AAAGL was formerly known as AA International Ltd until 17 November 2011, AirAsia Investment Ltd until 6 October 2021 and AirAsia Aviation Limited until 6 February 2022, after which it assumed its current name on 7 February 2022.

The principal activity of AAAGL is investment in shares outside Malaysia. Through its subsidiaries, namely TAA, PAA, IAA and CAA, the AAAGL Group provides air transport services from Thailand (commenced business in 2nd quarter of 2004), the Philippines (commenced business in 1st quarter of 2012), Indonesia (commenced business in 2nd quarter of 2005) and Cambodia (commenced business in May 2024).

The AAAGL Group is principally involved in the provision of short-haul domestic and international passenger air transport services for the respective airlines' markets in Thailand, the Philippines, Indonesia and Cambodia. In addition, the AAAGL Group also provides ancillary services to complement its passenger air transport services, which include pre-booked in-flight meals, pre-booked duty-free products and merchandise, onboard sale of meals, duty-free products and merchandise, baggage allowance, Fly-Thru services, travel insurance, seat selection and flight change and cancellation. For information, Fly-Thru services allow passengers to connect between 2 different flights offered by the other airlines of the AirAsia Group without having to go through immigration clearance and baggage collection during transit to the second flight, as immigration clearance will be done at, and the baggage will be checked through to, the final destination.

The AAAGL Group also provides air cargo services as a complementary service using the belly cargo capacity of its scheduled passenger flights. The AAAGL Group sells its air cargo capacity to its air cargo agent namely Teleport Everywhere Pte Ltd, a subsidiary of Capital A, which will arrange the movement of air cargo for its customers using the AAAGL Group's air cargo capacity.

Pursuant to the MBLA, AAAGL was granted the exclusive right to use the trade name and livery of the "AirAsia" brand for its aviation related business, including the right to sub-license such rights to its affiliates (including AAB, TAA, PAA, IAA and CAA). The MBLA shall remain in force for 10 years from 1 January 2023 and upon expiry of the initial term of the MBLA, the MBLA shall be automatically extended for a period of 10 years, provided that the MBLA has not been lawfully terminated by reason of breach or default in accordance with the terms and provisions of the MBLA. Pursuant to the Brand Sub-Licensing Agreements between AAAGL and the respective sub-licensees, the sub-licensees have to comply with the branding guidelines and operating requirements in relation to the operations of the AOCs as "AirAsia" branded airlines as well as any new or amended policies and standards prescribed by AAAGL. Accordingly, in accordance with the applicable accounting standards, AAV (the holding company of TAA) (listed on the Stock Exchange of Thailand), AAI (the holding company of PAA), AAID (the holding company of IAA) (listed on the Indonesia Stock Exchange) and CAA are therefore deemed as subsidiaries of AAAGL for accounting purposes during the FYE 31 December 2023. Prior to the FYE 31 December 2023, AAAGL did not exercise control over the abovementioned entities (excluding CAA which was only incorporated in 2023) and hence, the investments in these entities were accounted for as investments in associates.

As one of the key components in the AirAsia Ecosystem, the AAAGL Group transacts with other entities within the AirAsia Group in the ordinary course of its business. After the Proposed AAAGL Acquisition, AAAGL will become a wholly-owned subsidiary of our Company. Accordingly, where required, our Company will seek for our Shareholders' mandate for the AAAGL Group to enter into such recurrent related party transactions with other entities within the AirAsia Group.

Based on the accountants' report of AAAGL as set out in Appendix IX of this Circular:-

(i) the breakdown of AAAGL's revenue by reportable geographical segment for the FYE 31 December 2023 is as follows:-

FYE 31 December 2023	RM'000	%
Malaysia	20,697	0.37
Foreign countries	5,610,272	99.63
Total	**5,630,969**	**100.00**

(ii) AAAGL's material assets comprise the following:-

Type of asset	Audited carrying amount as at 31 December 2023 (RM'000)
• Property, plant and equipment	818,845[(1)]
• Right-of-use assets	5,398,005[(2)]
• Intangible assets	
○ Landing rights	2,430,840[(3)]
○ Goodwill	1,933,688[(4)]
• Receivables and prepayments	1,126,515[(5)]
• Deferred tax assets	268,225
• Inventories	137,473
• Cash and bank balances	205,340

Notes:-

(1) Property, plant and equipment comprises mainly aircraft, engines, airframes and service potential (RM332.61 million), freehold land (RM139.83 million), buildings (RM138.19 million) and aircraft spares (RM104.01 million).

(2) Right-of-use assets comprise mainly leased aircraft. As at 31 December 2023, the AAAGL Group leases 110 aircraft and owns 3 aircraft, with 88 aircraft in operation.

(3) Landing rights relate to traffic rights and landing slots for destinations operated by TAA, PAA and IAA.

(4) Goodwill arises mainly as a result of AAV and TAA becoming subsidiaries of AAAGL during the FYE 31 December 2023 as discussed in Section 1 of this Appendix IV. The business combinations of AAV and TAA were accounted for as a step-up from associate to subsidiary using acquisition method.

(5) Receivables and prepayments comprise mainly other receivables (which are mainly amounts set aside for leased rental security and maintenance reserve fund) (RM749.48 million), deposits (which mainly relate to operational security deposits which are short-term in nature) (RM124.75 million), trade receivables (RM99.98 million) and amount due from related companies (RM94.39 million).

As at the LPD, the AAAGL Group maintains a fleet of 118 aircraft with 96 aircraft in operation. The AAAGL Group leases its entire fleet of aircraft (save for 3 aircraft which are owned by TAA).

The entities within the AAAGL Group holding the airline operator certificates are TAA, PAA, IAA and CAA. The historical key operating statistics of these airlines are as follows:-

TAA

Key operating statistics	Unit	FYE 31 December			
		2020	2021	2022	2023
Passengers carried	'million no.	9.38	2.92	9.96	18.88
Seat capacity	'million no.	12.63	4.31	11.90	20.89
Passenger load factor	%	74	68	84	90
RPK	'million km	7,691	1,961	8,680	20,644
ASK	'million km	10,173	3,002	10,257	22,843
Number of stages	No.	69,313	23,899	66,121	114,571
Average stage length	km	802	697	866	1,094
Fleet size at year end	No.	62	60	54	56
Operating aircraft at year end	No.	41	25	41	50

As at the LPD, TAA maintains a fleet of 59 aircraft with 54 aircraft in operation. TAA leases its entire fleet of aircraft (save for 3 aircraft which are owned).

PAA

Key operating statistics	Unit	FYE 31 December			
		2020	**2021**	**2022**	**2023**
Passengers carried	'million no.	1.98	0.88	4.22	6.61
Seat capacity	'million no.	2.49	1.10	4.76	7.29
Passenger load factor	%	80	80	89	91
RPK	'million km	2,030	613	3,081	6,237
ASK	'million km	2,526	770	3,481	6,882
Number of stages	No.	13,852	6,100	26,418	40,502
Average stage length	km	1,013	702	732	944
Fleet size at year end	No.	24	24	23	25
Operating aircraft at year end	No.	9	4	9	15

As at the LPD, PAA maintains a fleet of 25 aircraft with 16 aircraft in operation. PAA leases its entire fleet of aircraft.

IAA

Key operating statistics	Unit	FYE 31 December			
		2020	**2021**	**2022**	**2023**
Passengers carried	'million no.	2.17	0.81	3.25	6.18
Seat capacity	'million no.	3.15	1.26	4.12	7.27
Passenger load factor	%	69	64	79	85
RPK	'million km	2,489	898	4,062	8,787
ASK	'million km	3,615	1,401	5,139	10,338
Number of stages	No.	17,518	6,986	22,759	40,409
Average stage length	km	1,146	1,114	1,246	1,421
Fleet size at year end	No.	28	26	24	32
Operating aircraft at year end	No.	11	7	11	23

As at the LPD, IAA maintains a fleet of 32 aircraft with 24 aircraft in operation. IAA leases its entire fleet of aircraft.

CAA

CAA has only commenced its business in Cambodia with 2 A320 aircraft in May 2024.

As at the LPD, CAA maintains a fleet of 2 aircraft with both aircraft in operation. CAA leases its entire fleet of aircraft.

Notes:-

(1) *Passenger load factor is a measure of the utilisation rate of the airline's passenger capacity. It is calculated by dividing passengers carried by seat capacity.*
(2) *RPK is a measure of the volume of passengers carried by the airline. It is the product of the number of passengers and number of kilometres those passengers were flown.*
(3) *ASK is a measure of the airline's passenger capacity. It is the product of the number of seats and number of kilometres those seats were flown.*
(4) *Number of stages refers to the number of flights flown.*
(5) *Average stage length refers to the average number of kilometres flown per flight.*

2. SHARE CAPITAL

As at the LPD, the issued share capital of AAAGL is USD5,270,000 comprising 5,270,000 ordinary shares in AAAGL.

3. SHAREHOLDER

As at the LPD, AAAGL is a direct wholly-owned subsidiary of Capital A. The background information on Capital A is set out in Section 4.2, Part A of this Circular.

4. DIRECTORS

As at the LPD, the directors of AAAGL and their respective shareholdings in AAAGL are as follows:-

			Direct		Indirect	
Name	**Nationality**	**Designation**	**No. of shares**	**%**	**No. of shares**	**%**
Tan Sri Jamaludin bin Ibrahim	Malaysian	Director	-	-	-	-
Bo Lingam	Malaysian	Director	-	-	-	-
Suvabha Charoenying	Thai	Director	-	-	-	-
Lim Serh Ghee	Singaporean	Director	-	-	-	-
Francisco Edralin Lim	Filipino	Director	-	-	-	-
Khoo Gaik Bee	Malaysian	Director	-	-	-	-

5. SUBSIDIARIES AND ASSOCIATED COMPANY

5.1 Subsidiaries

As at the LPD, the subsidiaries of AAAGL are as follows:-

Name of company	Date / Place of incorporation	Issued share capital	Effective equity interest held (%)	Principal activities
CAA	3.4.2023 / Cambodia	USD25,000,000	51.00	Passenger air transport
AirAsia Europe Limited	17.9.2020 / United Kingdom	100 pound sterling	100.00	Commercial air services
AirAsia (Guangzhou) Aviation Service Limited Company	13.11.2017 / China	USD1,000,000	100.00	Aviation and commercial services
AAAMS	6.8.2004 / Malaysia	RM300,000	100.00	Provision of aviation management services and information services
AAV	26.12.2011 / Thailand	THB1,285,000,000	40.71	Investment holding
TAA	19.9.2003 / Thailand	THB967,969,520	40.71	Low-fare airline service
Asia Aviation Center Co., Limited	27.1.2021 / Thailand	THB10,000,000	40.71	Providing academy institution of learning and competency development for aviation tourism and hospitality industries
AA Com Travel Philippines Inc.	19.6.2020 / Philippines	PHP10,500,000	100.00	Tour and travel services

Name of company	Date / Place of incorporation	Issued share capital	Effective equity interest held (%)	Principal activities
AAI	17.3.2011 / Philippines	PHP597,510,500	100.00	Commercial air transport services
PAA	9.7.1997 / Philippines	PHP595,000,000	99.66 (including preferred shares)	Commercial air transport services
Asiawide Airways Inc.	25.6.2008 / Philippines	PHP125,000,000	100.00	Dormant
AAID	21.8.1991 / Indonesia	IDR2,671,281,110,250	46.25	Investment holding
IAA	6.12.1999 / Indonesia	IDR421,066,000,000	47.43	Commercial air transport services
PT Garda Tawang Reksa Indonesia	15.11.2016 / Indonesia	IDR15,000,000,000	31.78	Provision of airport related services

5.2 Associated company

As at the LPD, AAAGL does not have any associated company.

6. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

6.1 Material commitments

As at the LPD, there are no material commitments incurred or known to be incurred by AAAGL and its subsidiaries that have not been provided for in the financial statements and which, upon becoming enforceable, may have a material impact on their profits or NA.

6.2 Contingent liabilities

As at the LPD, save as disclosed below, there are no contingent liabilities incurred or known to be incurred by AAAGL and its subsidiaries which, upon becoming enforceable, may have a material impact on their profits or NA:-

<u>Litigation involving AirAsia (India) Limited and Commissioner of Central Tax, Bangalore North</u>

During the course of the operations of AirAsia (India) Limited (an entity in which AAAGL had 49% equity interest), it had received certain demands and assessment orders from the tax authorities in India dated 19 October 2016, 19 July 2019, 30 June 2021, 25 September 2021, 21 April 2022 and 29 April 2022. The tax demands remain pending as at the LPD.

The maximum liability which may arise from the tax demands is approximately RM252.7 million based on 49% of the aggregate liability of AirAsia (India) Limited of INR10,022.2 million (approximately RM515.8 million based on an exchange rate of INR1 : RM0.051464), arising from the indemnities provided by AAAGL and AAB jointly and severally pursuant to 2 share purchase agreements dated 29 December 2020 and 2 November 2022 respectively for the disposal of 49% equity interest held by AAAGL in the share capital of AirAsia (India) Limited via 2 tranches.

The disposal of 49% equity interest held by AAAGL in the share capital of AirAsia (India) Limited were completed and as at the LPD, AAAGL does not hold any interest in AirAsia (India) Limited.

Based on the assessment by the tax and legal experts, AirAsia (India) Limited has a defensible position against the tax demands. Further, in the event any liabilities arising from the ongoing litigation proceedings on taxation involving AirAsia (India) Limited and the relevant parties have claimed against AAAGL and AAB pursuant to the indemnities provided by AAAGL and AAB under the share purchase agreements, Capital A shall indemnify our Company in respect of such claims in accordance with the terms and conditions of the AAAGL SSPA and AAB SSPA.

7. MATERIAL CONTRACTS

AAAGL and its subsidiaries have not entered into any material contracts (not being contracts entered into in the ordinary course of business) within 2 years immediately preceding the date of this Circular save for the deed of assignment dated 6 May 2024 entered into between AAI (as assignor) and PAA (as assignee), whereby the liabilities owing by PAA to AAI amounting to PHP10,500,000,000 (equivalent to approximately RM807,093,000*) ("**PAA Liabilities**") was assigned by AAI to PAA by way of converting the PAA Liabilities to the equity of PAA. Pursuant to the terms of the deed of assignment, AAI had subscribed for 205,000,000 common shares in PAA ("**PAA Subscription Shares**") and the PAA Liabilities was applied as full payment of the subscription price payable for the PAA Subscription Shares by AAI to PAA.

Note:-

* *Based on Bank Negara Malaysia's closing middle exchange rate of PHP100 : RM7.6866 as at the LPD.*

8. MATERIAL LITIGATION

As at the LPD, AAAGL and its subsidiaries are not involved in any material litigation, claims or arbitration, either as plaintiff or defendant, and the board of directors of AAAGL is not aware of any proceedings, pending or threatened, against AAAGL and its subsidiaries or any facts which are likely to give rise to any proceedings which may materially and adversely affect the business or financial position of AAAGL and its subsidiaries.

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9. HISTORICAL FINANCIAL INFORMATION

A summary of the financial information of the AAAGL Group for the FYE 31 December 2021, FYE 31 December 2022, FYE 31 December 2023, 6-month FPE 30 June 2023 and 6-month FPE 30 June 2024 are as follows:-

	Audited			Unaudited	
	FYE 31 December			FPE 30 June	
	Economic entity[(1)]	Group		Group	
	2021	2022	2023	2023	2024
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Revenue	-	22,245	5,630,969	2,126,623	5,446,368
Operating loss	(954)	(6,463)	(508,954)	(238,337)	216,710
Gain on remeasurement of previously held interest in associate	-	-	1,547,872	1,369,258	-
Share of results of associates	-	(297,829)	35,237	-	817
Profit / (Loss) before taxation	3,701	(302,591)	874,985	983,822	(669,548)
Profit / (Loss) after taxation	3,701	(302,591)	868,299	981,995	(664,650)
Profit / (Loss) after taxation attributable to the owners of AAAGL	3,701	(302,591)	1,137,184	1,204,093	(424,771)
Share capital	21,652	21,652	21,652	21,652	21,652
Shareholders' deficit	(10,210)	(350,631)	(2,234,004)[(2)]	(1,925,088)[(2)]	(4,515,397)[(3)]
Total borrowings, debentures and lease liabilities	-	171,376	9,789,132[(2)]	9,288,007[(2)]	9,638,715
No. of shares in issue ('000)	5,270	5,270	5,270	5,270	5,270
EPS / (LPS) attributable to the owners of AAAGL (RM)	0.70	(57.42)	215.78	228.48	(80.60)
Net liabilities per share attributable to the owners of AAAGL (RM)	(1.94)	(66.53)	(423.91)	(365.29)	(856.81)
Current ratio (times)	0.86	0.16	0.09	0.10	0.11
Gearing (times)	-	n/a[(4)]	n/a[(4)]	n/a[(4)]	n/a[(4)]

Notes:-

(1) Economic entity refers to AAAGL and its interests in associates.

(2) As set out in Section 1 of this Appendix IV, AAV, TAA, AAI, PAA, AAID and IAA have become subsidiaries of AAAGL during the FYE 31 December 2023. Arising therefrom, the AAAGL Group has a higher total borrowings, debentures and lease liabilities as at 30 June 2023 and 31 December 2023 as compared to as at 31 December 2022. The business combinations of AAI, PAA, AAID and IAA were accounted for under the pooling of interest method and this has resulted in the higher shareholders' deficit of the AAAGL Group as at 30 June 2023 and 31 December 2023 as compared to as at 31 December 2022.

(3) The increase in shareholders' deficit of the AAAGL Group from RM2,234.00 million as at 31 December 2023 to RM4,515.40 million as at 30 June 2024 was mainly due to the business combination of AA Com Travel Philippines Inc. during the 6-month FPE 30 June 2024 and the loss after taxation attributable to the owners of AAAGL of RM424.77 million for the 6-month FPE 30 June 2024.

(4) n/a denotes not applicable.

Accounting policies and audit qualification

Based on the accountants' report of AAAGL as set out in Appendix IX of this Circular, for the financial years under review:-

(i) there were no accounting policies adopted by the AAAGL Group which are peculiar to the AAAGL Group because of the nature of the business or the industry the AAAGL Group is involved in; and

(ii) there were no audit qualifications for the financial statements of the AAAGL Group.

Commentaries on financial performance

(a) Comparison between FYE 31 December 2021 and FYE 31 December 2022

The AAAGL Group recorded revenue of RM22.25 million for the FYE 31 December 2022 (FYE 31 December 2021: Nil), which was contributed mainly from the provision of aviation and commercial services of RM22.09 million by AirAsia (Guangzhou) Aviation Service Limited Company which was acquired during the FYE 31 December 2022.

The AAAGL Group recorded a loss after taxation of RM302.59 million for the FYE 31 December 2022, a decrease of RM306.29 million or 8,278.11% as compared to a profit after taxation of RM3.70 million for the FYE 31 December 2021, mainly attributed to the share of losses of associates of approximately RM297.83 million mainly arising from the share of losses in AAV.

(b) Comparison between FYE 31 December 2022 and FYE 31 December 2023

The AAAGL Group recorded an improved revenue of RM5,630.97 million for the FYE 31 December 2023 (FYE 31 December 2022: RM22.25 million), which was contributed mainly from the sale of scheduled flights and chartered flights of RM4,569.55 million and ancillary revenue of RM1,030.85 million, contributed from TAA, IAA and PAA which were deemed as subsidiaries of AAAGL for accounting purposes during the FYE 31 December 2023 as discussed in Section 1 of this Appendix IV.

The AAAGL Group recorded a profit after taxation of RM868.30 million for the FYE 31 December 2023, an improvement of RM1,170.89 million or 386.96% as compared to a loss after taxation of RM302.59 million for the FYE 31 December 2022, mainly attributed to higher revenue as explained above, offset by the operating expenses, particularly aircraft fuel expenses of RM2,375.25 million, maintenance and overhaul expenses of RM1,365.68 million and user charges of RM932.64 million for the scheduled flights and chartered flights operations. In addition, there was a gain on remeasurement of previously held interest in associate of RM1,547.87 million, derived primarily from the impacts resulting from the change of status of AAV from associate to subsidiary during the FYE 31 December 2023 as discussed in Section 1 of this Appendix IV.

(c) Comparison between 6-month FPE 30 June 2023 and 6-month FPE 30 June 2024

The AAAGL Group recorded revenue of RM5,446.37 million for the 6-month FPE 30 June 2024, an increase of RM3,319.75 million or 156.10% from RM2,126.62 million for the 6-month FPE 30 June 2023, contributed from the continued growth in regional travel demand, particularly routes to China and India, following visa-free travel implementation at the end of 2023 for China and India travellers, Sale of scheduled flights and chartered flights increased by RM2,747.22 million or 161.33% to RM4,450.13 million for the 6-month FPE 30 June 2024 as compared to RM1,702.91 million for the 6-month FPE 30 June 2023. Additionally, ancillary revenue increased by RM541.96 million or 129.66% to RM959.96 million for the 6-month FPE 30 June 2024 as compared to RM418.00 million for the 6-month FPE 30 June 2023.

Despite the higher revenue achieved, the AAAGL Group recorded a loss after taxation of RM664.65 million for the 6-month FPE 30 June 2024, a decrease of RM1,646.65 million or 167.68% as compared to a profit after taxation of RM982.00 million for the 6-month FPE 30 June 2023. This was mainly attributable to the absence of the gain on remeasurement of previously held interest in associate of RM1,369.26 million recorded for the corresponding preceding financial period. Additionally, the AAAGL Group recorded a loss on foreign exchange of RM572.92 million for the 6-month FPE 30 June 2024 (6-month FPE 30 June 2023: less than RM0.01 million), contributing to the loss after taxation for the 6-month FPE 30 June 2024.

For further financial information on AAAGL's major operating subsidiaries / AOCs, you may refer to:-

(i) https://www.aavplc.com/en/investor-relations/document/financial-performance for the financial statements of TAA and its holding company, AAV (listed on the Stock Exchange of Thailand);

(ii) Appendix XV of this Circular for the financial statements of PAA; and

(iii) https://ir.aaid.co.id/ar.html for the financial statements of IAA's holding company, namely AAID (listed on the Indonesia Stock Exchange).

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1. HISTORY AND BUSINESS

AAB was incorporated in Malaysia on 20 December 1993 under the Companies Act, 1965 as a private limited company under the name of AirAsia Sdn Bhd and is deemed registered under the Act. AAB was converted into a public limited company on 8 June 2004. AAB was listed on the Main Market of Bursa Securities on 22 November 2004. Subsequently, pursuant to an internal reorganisation undertaken by AAB by way of a members' scheme of arrangement under Section 366 of the Act, AAB was delisted and its listing status on the Main Market of Bursa Securities was assumed by Capital A on 16 April 2018.

The principal activity of AAB is providing air transport services from Malaysia (commenced business in 1996). The AAB Group is principally involved in the provision of short-haul domestic and international passenger air transport services for the Malaysian market. Similar to the AAAGL Group, the AAB Group also provides ancillary and air cargo services to complement its passenger air transport services.

As one of the key components in the AirAsia Ecosystem, the AAB Group transacts with other entities within the AirAsia Group in the ordinary course of its business. After the Proposed AAB Acquisition, AAB will become a wholly-owned subsidiary of our Company. Accordingly, where required, our Company will seek for our Shareholders' mandate for the AAB Group to enter into such recurrent related party transactions with other entities within the AirAsia Group.

Based on the accountants' report of AAB as set out in Appendix X of this Circular:-

(i) the breakdown of AAB's revenue by reportable geographical segment for the FYE 31 December 2023 is as follows:-

FYE 31 December 2023	RM'000	%
Malaysia	6,420,374	100.00
Foreign countries	-	-
Total	**6,420,374**	**100.00**

(ii) AAB's material assets comprise the following:-

Type of asset	Audited carrying amount as at 31 December 2023 (RM'000)
• Property, plant and equipment (comprising mainly buildings)	263,044
• Right-of-use assets	6,768,547[(1)]
• Finance lease receivables	3,783,046[(2)]
• Investment in associates	435,771
• Investment securities	106,847
• Deferred tax assets	734,085
• Receivables and prepayments	11,994,069[(3)]
• Deposits on aircraft purchase	663,757
• Deposits, cash and bank balances	168,491

Notes:-

(1) Right-of-use assets comprise mainly leased aircraft and spare engines. As at 31 December 2023, AAB leases 103 aircraft and does not own any aircraft, with 71 aircraft in operation.

(2) Finance lease receivables relate to amount receivable by the AAB Group from its aircraft subleases.

(3) Receivables and prepayments comprise mainly the following:-

(i) amount due from Capital A of RM3,803.60 million, representing mainly the balance cash consideration receivable by AAB from Capital A for the disposal of "AirAsia" brand to Capital A for a cash consideration of RM4,500.00 million;

(ii) prepayments of RM3,870.80 million include advances for purchases of fuel and prepaid engine maintenance to the service provider for the upcoming services being scheduled more than 1 year;

(iii) amount due from related companies of RM2,904.28 million, which includes amount due from the AAAGL Group which shall be novated to Capital A pursuant to the Vendor's Pre-Completion Restructuring; and

(iv) deposits of RM912.03 million, which are primarily with airports and aviation authorities.

The entity within the AAB Group holding the airline operator certificate is AAB. The historical key operating statistics of the airline are as follows:-

Key operating statistics	Unit	FYE 31 December			
		2020	2021	2022	2023
Passengers carried	'million no.	9.03	3.13	16.78	25.32
Seat capacity	'million no.	12.30	4.15	20.06	28.95
Passenger load factor	%	73	76	84	87
RPK	'million km	9,547	2,670	17,237	30,326
ASK	'million km	12,980	3,551	20,574	34,670
Number of stages	No.	66,890	22,263	107,753	157,104
Average stage length	km	1,053	858	1,016	1,198
Fleet size at year end	No.	96	103	105	103
Operating aircraft at year end	No.	35	14	43	71

As at the LPD, AAB maintains a fleet of 103 aircraft with 80 aircraft in operation. AAB leases its entire fleet of aircraft and does not own any aircraft.

Notes:-

(1) Passenger load factor is a measure of the utilisation rate of the airline's passenger capacity. It is calculated by dividing passengers carried by seat capacity.

(2) RPK is a measure of the volume of passengers carried by the airline. It is the product of the number of passengers and number of kilometres those passengers were flown.

(3) ASK is a measure of the airline's passenger capacity. It is the product of the number of seats and number of kilometres those seats were flown.

(4) Number of stages refers to the number of flights flown.

(5) Average stage length refers to the average number of kilometres flown per flight.

2. SHARE CAPITAL

As at the LPD, the issued share capital of AAB is RM2,515,673,745 comprising 3,341,974,080 ordinary shares in AAB.

3. SHAREHOLDER

As at the LPD, AAB is a direct wholly-owned subsidiary of Capital A. The background information on Capital A is set out in Section 4.2, Part A of this Circular.

4. DIRECTORS

As at the LPD, the directors of AAB and their respective shareholdings in AAB are as follows:-

Name	Nationality	Designation	Direct		Indirect	
			No. of shares	%	No. of shares	%
Datuk Kamarudin	Malaysian	Director	-	-	3,341,974,080[(1)]	100.00
Riad Asmat	Malaysian	Director	-	-	-	-
Jasmindar Kaur A/P Sarban Singh	Malaysian	Director	-	-	-	-
Dato' Captain Fareh Ishraf Mazputra bin Ahmad Fairuz	Malaysian	Director	-	-	-	-

Note:-

(1) Deemed interested by virtue of his interest in Capital A pursuant to Section 8 of the Act.

5. SUBSIDIARIES AND ASSOCIATED COMPANIES

5.1 Subsidiaries

As at the LPD, the subsidiaries of AAB are as follows:-

Name of company	Date / Place of incorporation	Issued share capital	Effective equity interest held (%)	Principal activities
AirAsia (Mauritius) Ltd	20.8.2004 / Mauritius	USD1	100.00	Providing aircraft leasing facilities
Asia Aviation Capital Limited	26.9.2014 / Labuan	USD5,000,000	100.00	Providing aircraft leasing facilities
Asia Aviation Capital Pte Ltd	18.7.2016 / Singapore	SGD4,110,001	100.00	Providing supporting services to air transport
Rouge Aircraft 1 Limited	28.11.2017 / Labuan	USD1,000	100.00	Providing supporting services to air transport
AirAsia Corporate Services Limited	21.10.2008 / Labuan	USD10,000,000	100.00	Facilitate insurance services for Capital A and its subsidiaries
AirAsia RB 1 Ltd	15.3.2024 / Labuan	USD1,000	100.00	Investment holding

5.2 Associated companies

As at the LPD, the associated companies of AAB are as follows:-

Name of company	Date / Place of incorporation	Issued share capital	Effective equity interest held (%)	Principal activities
AirAsia Philippines Inc.	22.3.2005 / Philippines	PHP1,000,000	39.90	Dormant
Ground Team Red Holdings Sdn Bhd	21.9.2017 / Malaysia	RM63,177,130	50.00	Investment holding
Ground Team Red Sdn Bhd	26.12.2007 / Malaysia	RM86,213,964	51.00	Ground handling services
GTRSG Pte Ltd	5.9.2017 / Singapore	SGD3,768,950	40.00	Ground handling services

6. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

6.1 Material commitments

Save for capital commitments in respect of aircraft purchase as disclosed below, as at the LPD, there are no material commitments incurred or known to be incurred by AAB and its subsidiaries that have not been provided for in the financial statements and which, upon becoming enforceable, may have a material impact on their profits or NA:-

Commitments	Amount (RM'000)
Property, plant and equipment	
- Approved and contracted for	103,027,097

6.2 Contingent liabilities

As at the LPD, save for any claims which may arise from the ongoing litigation proceedings on taxation involving AirAsia (India) Limited (further details as set out in Section 6.2 of Appendix IV of this Circular), there are no contingent liabilities incurred or known to be incurred by AAB and its subsidiaries which, upon becoming enforceable, may have a material impact on their profits or NA.

7. MATERIAL CONTRACTS

AAB and its subsidiaries have not entered into any material contracts (not being contracts entered into in the ordinary course of business) within 2 years immediately preceding the date of this Circular save for an intellectual property assignment agreement dated 27 June 2023 entered into between AAB (as seller), Capital A (as purchaser) and Brand AA Sdn Bhd (as nominee of Capital A), wherein AAB assigned all its rights, titles and interests in and to the "AirAsia" brand to Brand AA Sdn Bhd, being a nominee of Capital A for a cash consideration of RM4,500.00 million effective from the date of the agreement in accordance with the terms and conditions contained therein.

8. MATERIAL LITIGATION

Save as disclosed below, as at the LPD, AAB and its subsidiaries are not involved in any material litigation, claims or arbitration, either as plaintiff or defendant, and the board of directors of AAB is not aware of any proceedings, pending or threatened, against AAB and its subsidiaries or any facts which are likely to give rise to any proceedings which may materially and adversely affect the business or financial position of AAB and its subsidiaries:-

<u>Arbitration matter involving Mr. Christopher Davison and Mr. Navin Rajagopalan (as claimants) v Move Digital Sdn Bhd (formerly known as AirAsia Digital Sdn Bhd) ("**Move Digital**"), AAB and BigPay Pte Ltd ("**BigPay SG**") (as respondents) at Singapore International Arbitration Centre in respect of disputes arising from the shareholder disputes in relation to BigPay SG</u>

On 17 March 2017, the claimants, AAB and BigPay SG have entered into the following agreements in relation to the regulation of affairs of BigPay SG:-

(1) Shareholders' agreement which sets out the terms governing the relationship between the shareholders of BigPay SG ("**BigPay SHA**"); and

(2) Investment agreement which sets out the terms and conditions relating to AAB's investment in BigPay SG ("**BigPay IA**").

On 1 November 2019, AAB has transferred its entire shareholding in BigPay SG to Move Digital, a wholly-owned subsidiary of Capital A and consequently, Move Digital agreed to be subject to the same restrictions and obligations as AAB pursuant to the terms and conditions of the BigPay SHA and BigPay IA.

On 18 November 2021, the claimants issued a notice of arbitration against Move Digital, AAB and BigPay SG to initiate arbitration proceedings under the Arbitration Rules of the Singapore International Arbitration Centre 2016.

The claimants, as minority shareholders of BigPay SG alleged that amongst others, for breaches and wrongful termination of the BigPay IA and BigPay SHA by the respondents and minority oppression under section 216(1) of the Companies Act 1967 of Singapore ("**Singapore Companies Act**"). Pursuant to the notice of arbitration, the claimants claimed for, amongst others, a buy-out by Move Digital of the shares held by the claimants in BigPay SG pursuant to section 216(2)(d) of the Singapore Companies Act with an initial quantification of the claim in the region of USD105,000,000 (equivalent to approximately RM453,180,000*).

On 2 December 2021, the respondents have respectively filed responses to the notice of arbitration to deny the claimants' claims. Move Digital and AAB have also counterclaimed for damages against the respondents in the torts of defamation, malicious falsehood and conspiracy in which their case will be set out in full in the statement of defence and counterclaim.

Pursuant to the statement of claim dated 26 August 2022 (as amended on 14 October 2022) filed by the claimants against Move Digital, AAB and BigPay SG, the claimants have claimed for amongst others, the following:-

(1) In respect of the claim in minority oppression:

(a) A declaration that AAB and Move Digital have conducted the affairs of BigPay SG and/or caused the powers of their nominee directors to be exercised in a manner that oppresses, disregards the interests of, unfairly discriminates against or otherwise prejudices the claimants in contravention of section 216(1) of the Singapore Companies Act;

(b) An order that the issuance of 197,309,509 shares in BigPay SG to Move Digital on 21 May 2021 (which resulted in the dilution of the claimants' shareholding in BigPay SG) be struck down and invalidated; and

(c) An order providing for Move Digital to purchase the shares of the claimants pursuant to section 216(2)(d) of the Singapore Companies Act on such terms to be determined by the arbitral tribunal after considering submissions from the parties ("**Buy-Out Order**").

(2) In respect of the claim for breaches of the BigPay IA and the BigPay SHA, a declaration that BigPay SG, AAB and Move Digital have breached the BigPay IA and the BigPay SHA.

(3) In respect of either or both claims:-

(a) Damages, to the extent that the arbitral tribunal does not order a buy-out pursuant to section 216(2)(d) of the Singapore Companies Act or the buy-out does not fully compensate the claimants for the oppressive conduct by AAB and Move Digital and/or the breaches of the BigPay IA and the BigPay SHA by BigPay SG, AAB and Move Digital. In particular, the dilution in the claimants' shareholding in BigPay SG;

(b) Interest on the amounts claimed; and

(c) An order that BigPay SG, AAB and/or Move Digital pay the claimants' costs, including legal, direct costs, and all other costs, fees and expenses of any kind, on a full indemnity basis.

In relation to the Buy-Out Order, the claim made by the claimants in relation to the value of shareholding to which the claimants have alleged to be rightfully entitled to under the BigPay IA and the BigPay SHA are in the region of at least USD140,000,000 to USD183,000,000 (equivalent to approximately RM604,240,000* to RM789,828,000*). The claimants further stated in the statement of claim that they reserve their right to supplement and/or amend their position on valuation once they have had the benefit of reviewing all relevant documents provided by the respondents as part of the disclosure phase in the proceedings.

On 17 October 2022, Move Digital, AAB and BigPay SG have filed the statements of defence and counterclaim respectively to deny and defend the claims. AAB and Move Digital have counterclaimed for amongst others, joint and several liability by the claimants for damages to AAB and Move Digital for the tort of malicious falsehood in respect of the statements in an article authored and circulated by the claimants, including to news outlets that dishonestly alleged corruption and fraud on the part of AirAsia Group while revealing confidential information regarding AirAsia Group's financial affairs. AAB and Move Digital have in their statement of defence and counterclaim claimed for, amongst others, the following:-

(1) A declaration that the BigPay SHA has been validly terminated;

(2) A declaration that the BigPay IA has been validly terminated;

(3) A declaration that the claimants' interest in the shares of BigPay SG are as reflected in the BigPay SG's register of members;

(4) An order that the claimants shall pay to AAB and Move Digital damages for the counterclaim of malicious falsehood in an amount to be assessed; and

(5) An order that the claimants shall pay to AAB and Move Digital all of the costs of the arbitration (including all attorney's fees and expenses) on a full indemnity basis.

The claimants have subsequently filed the reply and defence to counterclaim to the Move Digital and AAB's defence and counterclaim as well as reply to BigPay SG's defence on 29 November 2022. Move Digital and AAB have also filed the 1st and 2nd respondents' statement of reply to defence to counterclaim ("**Rejoinder**") on 23 December 2022. On 10 March 2023, the claimants have filed the claimants' surrejoinder in response to the Rejoinder.

As at the LPD, the arbitration proceedings remain pending. The evidentiary hearing concluded on 13 October 2023 and an award is expected to be issued in 2024.

The solicitors acting for Move Digital and AAB are of the view that Move Digital and AAB have reasonable prospects of successfully defending the claim.

Note:-

* *Based on Bank Negara Malaysia's closing middle exchange rate of USD1 : RM4.3160 as at the LPD.*

9. HISTORICAL FINANCIAL INFORMATION

A summary of the financial information of the AAB Group for the FYE 31 December 2021, FYE 31 December 2022, FYE 31 December 2023, 6-month FPE 30 June 2023 and 6-month FPE 30 June 2024 are as follows:-

	Audited			Unaudited	
	FYE 31 December			FPE 30 June	
	2021	2022	2023	2023	2024
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Revenue	691,358	3,784,775	6,420,374	3,053,487	4,133,437
Operating (loss) / profit	(1,549,495)	(328,102)	4,704,492	4,923,160	453,169
Share of results of associates	(44,130)	(19,965)	(14,583)	(10,948)	(4,374)
(Loss) / Profit before taxation	(2,472,776)	(1,778,995)	3,626,938	4,019,104	(208,164)
(Loss) / Profit after taxation	(2,473,766)	(1,782,331)	3,620,868	4,016,287	(208,794)
(Loss) / Profit after taxation attributable to the owners of AAB	(2,473,766)	(1,782,331)	3,620,868	4,016,287	(208,794)
Share capital	2,515,673	2,515,673	2,515,673	2,515,673	2,515,673
Shareholders' deficit	(3,460,239)	(5,208,655)(1)	(1,504,694)(1)	(1,267,425)	(1,825,633)
Total borrowings and lease liabilities	13,049,438	14,749,122(2)	16,283,292(2)	15,125,777	16,444,286
No. of shares in issue ('000)	3,341,974	3,341,974	3,341,974	3,341,974	3,341,974
(LPS) / EPS attributable to the owners of AAB (RM)	(0.74)	(0.53)	1.08	1.20	(0.06)
Net liabilities per share attributable to the owners of AAB (RM)	(1.04)	(1.56)	(0.45)	(0.38)	(0.55)
Current ratio (times)	0.43	0.41	1.07	1.06	1.00
Gearing (times)	n/a(3)	n/a(3)	n/a(3)	n/a(3)	n/a(3)

Notes:-

(1) The increase in shareholders' deficit of the AAB Group from RM3,460.24 million as at 31 December 2021 to RM5,208.66 million as at 31 December 2022 was mainly due to the loss after taxation of RM1,782.33 million recorded for the FYE 31 December 2022 as the aviation industry was adversely affected by the COVID-19 pandemic. The shareholders' deficit of the AAB Group decreased from RM5,208.66 million as at 31 December 2022 to RM1,504.69 million as at 31 December 2023, mainly due to the profit after taxation of RM3,620.87 million recorded for the FYE 31 December 2023 resulting from a one-off gain from the disposal of "AirAsia" brand of RM4,500.00 million and higher revenue achieved during the financial year.

(2) The increase in total borrowings and lease liabilities of the AAB Group from RM13,049.44 million as at 31 December 2021 to RM14,749.12 million as at 31 December 2022 was mainly due to additional lease liabilities and financing facilities obtained during the financial year. The total borrowings and lease liabilities of the AAB Group increased further to RM16,283.29 million as at 31 December 2023, mainly due to additional lease liabilities and financing facilities obtained during the financial year.

(3) n/a denotes not applicable.

Accounting policies and audit qualification

Based on the accountants' report of AAB as set out in Appendix X of this Circular, for the financial years under review:-

(i) there were no accounting policies adopted by the AAB Group which are peculiar to the AAB Group because of the nature of the business or the industry the AAB Group is involved in; and

(ii) there were no audit qualifications for the financial statements of the AAB Group.

Commentaries on financial performance

(a) Comparison between FYE 31 December 2021 and FYE 31 December 2022

The AAB Group recorded revenue of RM3,784.78 million for the FYE 31 December 2022, an increase of RM3,093.42 million or 447.44% from RM691.36 million for the FYE 31 December 2021, mainly attributed to the relaxation of travel restrictions, including testing, quarantine and entry requirements. Consequently, AAB carried 16.78 million passengers during the FYE 31 December 2022 as compared to 3.13 million in the previous financial year. Hence, seat sales revenue increased by RM2,361.65 million or 474.72% to RM2,859.13 million for the FYE 31 December 2022 as compared to RM497.48 million for the FYE 31 December 2021. Additionally, ancillary revenue increased by RM685.71 million or 379.85% to RM866.23 million for the FYE 31 December 2022 as compared to RM180.52 million for the previous financial year driven by the increased fees from checked baggage, seat selection, processing, and service fees as a result of high number of passengers resulting from the resumption of international flights.

The AAB Group recorded a loss after taxation of RM1,782.33 million for the FYE 31 December 2022 as compared to a loss after taxation of RM2,473.77 million for the previous financial year, representing a decrease in losses of approximately RM691.44 million or 27.95%. This was mainly due to the higher revenue as explained above, partially offset by higher operating expenses, particularly aircraft fuel expenses which increased by RM1,694.86 million or 741.90% from RM228.45 million for the FYE 31 December 2021 to RM1,923.31 million for the FYE 31 December 2022, resulting from higher fuel consumption and rising fuel prices in the global market.

(b) Comparison between FYE 31 December 2022 and FYE 31 December 2023

The AAB Group recorded revenue of RM6,420.37 million for the FYE 31 December 2023, an increase of RM2,635.59 million or 69.64% from RM3,784.78 million for the FYE 31 December 2022. The increased revenue during the FYE 31 December 2023 was mainly attributable to the reactivation of an additional 28 operating aircraft during the said financial year. This brought the total number of operational aircraft in the AAB Group's fleet to 71 as at 31 December 2023, significantly increasing the seat capacity for the AAB Group's scheduled flight operations. Hence, seat sales revenue increased by RM1,450.21 million or 50.72% to RM4,309.34 million for the FYE 31 December 2023 as compared to RM2,859.13 million for the FYE 31 December 2022. The AAB Group also recorded an increase in its average base fare as compared to the previous financial year. Additionally, ancillary revenue increased by RM1,160.76 million or 134.00% reaching RM2,026.99 million for the FYE 31 December 2023 as compared to RM866.23 million for the previous financial year driven by the increased fees from checked baggage, seat selection, processing, and service fees due to the higher number of passengers, resulting from more aircraft being brought back into service.

The AAB Group recorded a profit after taxation of RM3,620.87 million for the FYE 31 December 2023 as compared to a loss after taxation of RM1,782.33 million for the previous financial year, representing an increase in profit of approximately RM5,403.20 million or 303.15%. The improvement was mainly due to a one-off gain from the disposal of "AirAsia" brand of RM4,500.00 million and the higher revenue as explained above, partially offset by higher operating expenses, particularly from aircraft fuel expenses which rose by RM879.54 million or 45.73% from RM1,923.31 million for the FYE 31 December 2022 to RM2,802.85 million for the FYE 31 December 2023 resulting from higher fuel consumption and rising fuel prices in the global market.

(c) Comparison between 6-month FPE 30 June 2023 and 6-month FPE 30 June 2024

The AAB Group recorded revenue of RM4,133.44 million for the 6-month FPE 30 June 2024, an increase of RM1,079.95 million or 35.37% from RM3,053.49 million for the 6-month FPE 30 June 2023, mainly attributed to the continued growth in domestic travel demand and the increase in the total number of operational aircraft in the AAB Group's fleet to 79 as at 30 June 2024. Seat sales revenue increased by RM1,007.14 million or 42.43% to RM3,380.58 million for the 6-month FPE 30 June 2024 as compared to RM2,373.44 million for the 6-month FPE 30 June 2023. Additionally, ancillary revenue increased by RM195.30 million or 35.69% to RM742.56 million for the 6-month FPE 30 June 2024 as compared to RM547.26 million for the 6-month FPE 30 June 2023.

The AAB Group recorded a loss after taxation of RM208.79 million for the 6-month FPE 30 June 2024 as compared to a profit after taxation of RM4,016.29 million for the 6-month FPE 30 June 2023, a decrease of RM4,225.08 million or 105.20%. This was mainly due to the absence of the one-off gain from the disposal of "AirAsia" brand of RM4,500.00 million recorded for the corresponding preceding financial period, as explained above.

10. INFORMATION ON THE BONDS ISSUED BY AIRASIA RB 1 LTD

On 21 August 2024, AirAsia RB 1 Ltd, a wholly-owned subsidiary of AAB, had entered into definitive agreements with aircraft lessors and private credit funds for the issuance by AirAsia RB 1 Ltd, of Regulation S (under the US Securities Act) secured bonds of up to USD443.0 million, due September 2026 and August 2028, with AAB as a third party security provider, and both AAB and Capital A as corporate guarantors. Bank Negara Malaysia has vide its letters dated 26 March 2024 and 4 July 2024 approved the issuance of the bonds together with the proposed security under Bank Negara Malaysia's Foreign Exchange Policy. The bonds were issued on 23 August 2024.

The rationale for the issuance of the bonds is to raise proceeds which shall be on-lent by AirAsia RB 1 Ltd to AAB, for AAB to refinance its lease liabilities, aircraft and engine maintenance costs, and to support the working capital requirements of AAB. The use of gross proceeds from the issuance of the bonds of USD443.0 million is as follows:-

Use of proceeds	Expected timeframe for use of proceeds from the completion of the issuance of the bonds	Amount (USD'000)
(i) Refinancing of lease liabilities[(a)]	Fully utilised	262,907
(ii) Aircraft and engine maintenance costs[(b)]	Fully utilised	82,000
(iii) General working capital[(c)]	By December 2024	43,500
(iv) Debt service reserve[(d)]	By September 2024	32,000
(v) Transaction costs in relation to the issuance of the bonds[(e)]		
(a) Stamp duty	By December 2024	2,500
(b) Other transaction costs	Fully utilised	20,000
Total		**442,907**

Notes:-

(a) As at the date of this Circular, AAB has used gross proceeds of USD262.9 million to fulfill aircraft lease obligations to the lessors who have restructured the lease contracts.

(b) As at the date of this Circular, AAB has used gross proceeds of USD82.0 million to make payments for aircraft and engine maintenance to ensure that the aircraft remains fit for flying as AAB reactivates its remaining aircraft and ramps up its operations in line with the revival and increase of air travel demand after the COVID-19 pandemic.

(c) *AAB has allocated gross proceeds of USD43.5 million to part finance the general working capital requirements of the AAB Group for the day-to-day operations which include staff-related costs, training costs for pilot and cabin crew, jet fuel, information technology (IT) operating expenses and other general working capital requirements such as back-office support services fees, and office maintenance related expenses.*

(d) *Pursuant to the terms of issuance of the bonds, AAB shall maintain a minimum cash balance in a reserve account.*

(e) *Transaction costs in relation to the issuance of the bonds include professional fees such as legal and advisory fees, upfront fee as well as stamp duty.*

The bonds are guaranteed by AAB and Capital A as corporate guarantors. It is a term of the bonds that Capital A will be released as a corporate guarantor upon fulfilment of the conditions for substitution and release pursuant to the terms and conditions of the trust deed dated 21 August 2024, constituting the bonds, which includes the replacement of our Company as a corporate guarantor for the bonds upon completion of the Proposed Acquisitions.

The bonds and/or the corporate guarantees (as the case may be) are also secured by, amongst others:-

(i) a first ranking assignment by AAB over all present and future revenue proceeds generated by AAB from passenger seat sales (including fuel surcharges) and ancillary revenue from the selected specified routes ("**Secured Routes**") after deduction of any refunds, airport taxes, merchant discount fees and bank charges which are held by AAB ("**Revenue Proceeds**")[(1)];

(ii) a floating charge by AAB over certain sub-accounts of AAB's general operating account ("**Sub-General Accounts**"), which shall receive the Revenue Proceeds generated by AAB through distribution channels other than AirAsia Move app[(1)];

(iii) a first ranking share charge by AAB over 100% of the shares of AirAsia RB 1 Ltd held; and

(iv) a first ranking charge and assignment over all present and future interest, rights, benefits, titles and assets of AirAsia RB 1 Ltd including:-

    (a) the intercompany loan between AirAsia RB 1 Ltd and AAB;

    (b) the designated operating account ("**Designated AOC Operating Account**")[(1)] which shall be established in the name of AirAsia RB 1 Ltd to capture certain Revenue Proceeds generated by AAB through AirAsia Move app;

    (c) the revenue reserve account ("**Reserve Account**")[(1)] which shall be established in the name of AirAsia RB 1 Ltd and certain funds (including amounts derived from Revenue Proceeds) will be required to be retained in that account from time to time; and

    (d) upon completion of the Proposed Acquisitions, a first ranking share charge by our Company in respect of 49% of the shares of AAB held.

Note:-

(1) *From the date of issuance of the bonds, the Revenue Proceeds from the Secured Routes will be deposited into the Designated AOC Operating Account and Sub-General Accounts, depending on the distribution channels. These Revenue Proceeds shall be applied towards (i) any fees and/or costs which may be incurred, (ii) repay the bonds (including interest) and (iii) maintain a certain minimum cash balance of at least the expected sum of next quarterly interest and principal payment due to the bondholders in the Reserve Account as collateral (collectively, "**cash waterfall payments**").*

The Designated AOC Operating Account and Reserve Account (both accounts consist of Revenue Proceeds from the Secured Routes only) are managed by the appointed transaction administrator which will ensure that AirAsia RB 1 Ltd complies with the agreed cash waterfall payments and shall be responsible for making payment of any excess cash post application for such cash waterfall payments back to the AAB Group for working capital purposes.

The Sub-General Accounts (which may include Revenue Proceeds from non-Secured Routes) shall be managed by AAB in the ordinary course of business, and AAB shall be responsible for transferring the Revenue Proceeds from the Secured Routes which are collected in this account to the Designated AOC Operating Account to ensure that the cash waterfall payments are met.

The charges over the abovementioned Revenue Proceeds, Sub-General Accounts, Designated AOC Operating Account and Reserve Account are to secure the interests of the bondholders. The abovementioned arrangements shall continue after AAB becomes a subsidiary of AAX upon completion of the Proposed Acquisitions. Further details are set out in Section 5 of Appendix II(C) of this Circular.

Based on the bonds' interest rate for tranche 1 (USD242.9 million) of 7% per annum and tranche 2 (USD200.0 million) of 14% per annum, AirAsia RB 1 Ltd is expected to incur an interest payment of approximately RM195 million per annum (based on Bank Negara Malaysia's closing middle exchange rate of USD1 : RM4.3160 as at the LPD). The pro forma financial effects of the issuance of the bonds on the gearing and EPS of AAX are illustrated in Sections 11.3 and 11.4, Part A of this Circular (Pro forma NA of AAX: No impact from the issuance of the bonds).

For information purposes, the principal amount for tranche 1 of the bonds will be payable quarterly in arrear commencing from 30 September 2024 until the maturity in September 2026 while the principal amount for tranche 2 of the bonds will be payable by the maturity in August 2028. The source of funds for the repayment of the bonds over the bond tenure will be the Revenue Proceeds from the Secured Routes.

AAB's debt payment capability to the bondholders is dependent on the cash flows generated from the passenger seat sales and ancillary revenue of the Secured Routes under the bonds, and the profitability of AAB's airline business in general. The profitability of AAB's airline business in general are, in turn, dependent on, amongst others, the demand for air travel and competition from other airlines. There is no assurance that the cash flows generated by AAB would be timely or sufficient to ensure the interest and principal payment of the bonds are paid when due. Nevertheless, AAB will continuously monitor and review the cash flows of its operations to ensure the ability of AirAsia RB 1 Ltd to meet its bond payment obligations is not compromised.

The salient terms of the bonds are set out in Appendix II(C) of this Circular.

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Deloitte.

25 July 2024

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RedQ, Jalan Pekeliling 5
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64000 KLIA
Selangor Darul Ehsan
Malaysia

Attention: Ms. Pattra Boosarawongse, Group Chief Financial Officer

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

Attention: Encik Benyamin Ismail, Chief Executive Officer

VALUATION LETTER – INDEPENDENT VALUATION OF 100% EQUITY INTERESTS IN AIRASIA BERHAD, AIRASIA AVIATION GROUP LIMITED AND ITS SUBSIDIARIES

1.0 Introduction

Deloitte Corporate Advisory Services Sdn. Bhd. ("DCAS") has been engaged by Capital A Berhad ("Capital A") and AirAsia X Berhad ("AAX") (hereinafter referred to as the "Clients") to perform an independent valuation ("Services") on AirAsia Berhad ("AAB"), AirAsia Aviation Group Limited ("AAAGL") and its subsidiaries ("AAAGL Group") (collectively known as the "Targets") in connection with a proposed internal restructuring of Capital A and its subsidiaries, and AAX ("Proposed Transaction") in accordance with the terms of the engagement letter dated 21 October 2022 ("Engagement Letter"), the addendums dated 29 March 2023 and 01 April 2024 ("Addendums") and a letter of representation on the assumption dated 24 July 2024. The proposed internal restructuring entails the acquisition by AAX of 100% equity interests in AAAGL and AAB held by Capital A.

For the purposes of this valuation letter ("Valuation Letter" or "Letter"), the AAAGL Group comprises AAAGL, PT AirAsia Indonesia TBK ("AAID"), PT Indonesia AirAsia ("IAA"), AirAsia Inc. ("AAI"), Philippines AirAsia Inc. ("PAA"), Asia Aviation Public Company Limited ("AAV") and Thai AirAsia Company Limited ("TAA").

2.0 Terms of Reference

DCAS has been appointed to conduct an independent valuation of the Targets in connection with the Proposed Transaction.

This Valuation Letter is prepared for inclusion in the circular to the shareholders of Capital A and AAX for the Proposed Transaction ("Purpose" or "Circular"), which has been updated subsequent to the initial valuation letter dated 15 April 2024 to consider the audited financial statements of the Targets and the latest plan for the internal reorganisation and capitalisation of debts.

The financial year end ("FY") of the Targets is 31 December and the agreed valuation date is 31 December 2023 ("Valuation Date"). The latest financial statements used for the Services are the audited financial statements ("AFS") for the financial year ended 31 December 2023 provided by the management of the Clients ("Management").

Deloitte.

2.0 Terms of Reference (cont'd)

Save and except for the Purpose stated above, this Valuation Letter cannot be used or relied upon for any other purpose and/or by any other person including, without limitation, any of the shareholders, employees, directors as individuals, investors or any other person.

For the avoidance of doubt, the Clients are solely responsible for determining the ultimate price to be paid with respect to the Proposed Transaction. DCAS will not render any advice as to whether, or at what price the Proposed Transaction should be entered into.

This Valuation Letter and the data herein are not intended to form the only basis of any decisions in relation to the Proposed Transaction. Furthermore, this Letter does not contain all the information necessary to fully evaluate the Proposed Transaction.

In addition to the Services, other Deloitte network firms in Malaysia are also providing advisory services to Capital A and AAX, and we are not aware of any conflicts to the Services. Other than the existing relationship as set out above, DCAS was not involved in any other aspects pertaining to the Proposed Transaction. DCAS does not, by this Letter or otherwise, advise, recommend, evaluate, comment or form any judgment or opinion on the legal, commercial or financial rationale, merits or risks in relation to the Proposed Transaction or the relative merits of the Proposed Transaction as compared to any alternative transactions previously considered by the Clients or that otherwise may be available to the Clients in the future or on the future growth prospects or earnings potential of the Targets. Such advice, recommendations, evaluations, comments, judgements or opinions are and remain the sole responsibility of the Board of Directors of both Capital A and AAX, and other advisors engaged for the Proposed Transaction.

The Clients have confirmed that to the best of their knowledge and belief, the information in relation to the financials, operations and any other information of the Targets provided to DCAS are accurate in all material respects, that the Clients have made available to DCAS all significant information relevant to the Services of which the Clients have knowledge and that they are not aware of any material matters relevant to DCAS' terms of reference which have been excluded. The Clients have read this Valuation Letter and agreed to DCAS' key bases and assumptions in connection with the Services.

DCAS does not guarantee or warrant the achievability of the financial projections provided by the Targets. Financial projections are inherently uncertain and are based on estimations of future events that cannot be assured and could be based on certain assumptions that may not materialise. Accordingly, actual results can be significantly different from those projected. Hence, the Services may be materially or adversely affected should the actual results differ from the bases and assumptions which the Services were based upon.

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3.0 Background Information of the Targets and AAX

The proposed internal restructuring entails the acquisition by AAX of 100% equity interests in AAAGL and AAB held by Capital A.

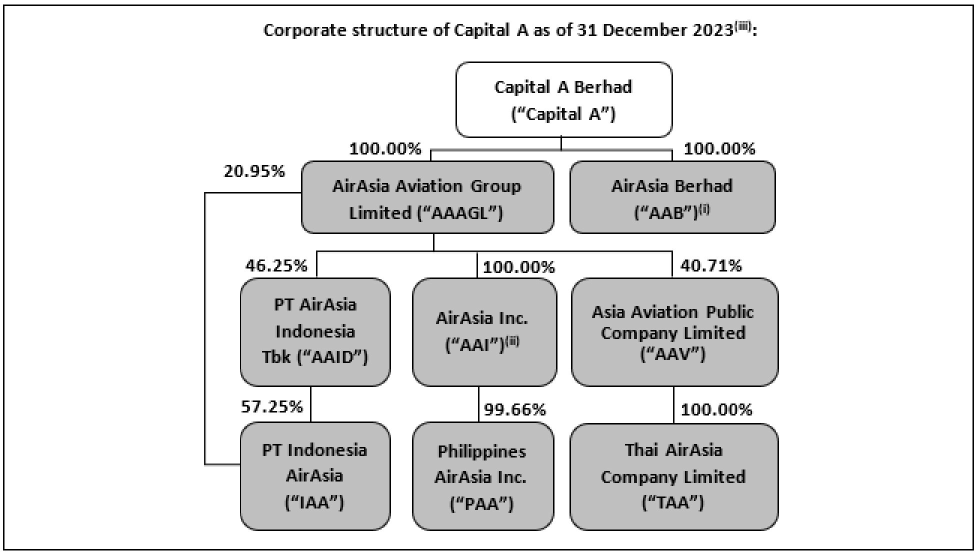
Capital A is an investment holding company with a portfolio of synergistic travel and lifestyle businesses; AAX is a medium to long-haul airline operating primarily in the Asia-Pacific region.

For the purposes of the Proposed Transaction, DCAS has been engaged to perform an independent valuation of AAAGL and AAB, which represents the aviation business of Capital A. AAAGL has equity ownership in three investment holding companies, namely AAID, AAI and AAV. The intermediate holding companies in turn are invested in IAA, PAA and TAA. These companies are collectively known as the Targets.

IAA, PAA, TAA and AAB are low-cost carriers which provide air transportation services spanning domestic and international routes, mainly focusing on short-haul flights (hereafter also referred to as airline operating companies or AOC).

The corporate structure of the Targets as of the Valuation Date are as outlined in Diagram 1 below.

Diagram 1 – Group structure of companies subject to valuation for the Proposed Transaction



Source: Management information, DCAS analysis

Note:

(i) The subsidiaries and associates held by AAB are mostly dormant in nature. As such, their carrying amounts based on the audited financial statements as of the Valuation Date have been considered as surplus assets in the valuation of AAB.

(ii) On 5 June 2023, AA Com Travel Philippines Inc., entered into a sale and purchase agreement to acquire 60% of the issued share capital of AAI, translating to a post-acquisition ownership of 100% in AAI (40% direct ownership in AAI and 60% indirect ownership via AA Com Travel Philippines Inc). Management represented that AA Com Travel Philippines Inc. will be transferred to AAAGL prior to the Proposed Transaction. For the purposes of this Letter, DCAS has been instructed to consider the net assets of AA Com Travel Philippines Inc. in valuing AirAsia Aviation Group Limited. As of the date of this Letter, the transfer of AA Com Travel Philippines Inc. to AAAGL has been completed.

(iii) The corporate structure is a simplified structure and only illustrates the companies that are relevant to the valuation exercise. Grey highlights denote valuation subjects.

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4.0 Valuation Bases and Approaches

4.1 Subject of Valuation

The subject of valuation covers 100% equity value of the following entities on marketable and control basis:

i. The AOC which include AAB, IAA, PAA and TAA; and
ii. The holding companies which include AAAGL, AAID, AAI and AAV.

The valuation has been undertaken on an "as-is" basis, assuming the Targets to be going concern as standalone entities.

4.2 Date of Valuation

The valuation is based on an agreed valuation date of 31 December 2023.

Events which take place post Valuation Date have not been considered, except those specifically mentioned in this Letter.

As of the date of this Letter, DCAS is not aware of any event or fact that will materially affect the valuation of the Targets.

4.3 Standard of Value

The standard of value that has been applied is market value, which is defined by International Valuation Standards effective 31 January 2022, as an estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion.

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4.4 Valuation Currencies

The valuation of each of the entities has been performed based on the reporting currencies of the respective entities.

For presentation purposes, the resulting valuation of entities with respective reporting currency will be converted to United States Dollar ("USD") and Ringgit Malaysia ("RM") based on the applicable exchange rates as at the Valuation Date in Table 1 below.

Table 1 – Exchange rate as of the Valuation Date

Entity	Country of incorporation	Reporting currency	Exchange rate to USD	Exchange rate to RM
AOC				
AAB	Malaysia	RM	0.2180	1.0000
IAA	Indonesia	Indonesian Rupiah ("IDR")	0.0001	0.0003
PAA	Philippines	Philippines Peso ("PHP")	0.0181	0.0828
TAA	Thailand	Thai Baht ("THB")	0.0291	0.1334
Holding companies				
AAAGL	Malaysia	USD	1.0000	4.5875
AAID	Indonesia	IDR	0.0001	0.0003
AAI	Philippines	PHP	0.0181	0.0828
AAV	Thailand	THB	0.0291	0.1334

Source: Management information, Capital IQ, DCAS analysis

Note: The exchange rates above have been rounded to the nearest 4 decimal points for presentation purposes.

4.5 Methods of Valuation

The following valuation methods have been considered in deriving the range of market value of the Targets:

i. Income approach – The income approach bases value on the estimated future cash flows which an entity is expected to generate. Discounted cash flows are estimated based on discussions and projections by the Management and other publicly available information.

ii. Market approach – The market approach estimates value based on market prices of comparable companies, adjusted for differences between the subject company and comparable companies. Guideline Public Company Method ("GPCM") is used to estimate value based on comparable listed companies. The enterprise value ("BEV") over earnings before interest, tax, depreciation, amortisation and rental ("EBITDAR") ("BEV/EBITDAR") multiple of the guideline public companies ("GPC") are considered as key valuation metrics to form the ranges of values; and

iii. Adjusted book value approach – The adjusted book value approach measures the net value of an enterprise after its assets and liabilities have been adjusted to its market value as at the Valuation Date.

The AOC are income-generating companies with active operations, as such the income approach has been adopted as the primary approach to determine the market value of the AOC whilst the market approach has been used for cross-checking purposes. The adjusted book value approach has not been applied given that the net assets of the AOC may not be reflective of their future earning capabilities.

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4.5 Methods of Valuation (Cont'd)

The adjusted book value approach has been principally applied in valuing for the holding companies given that their respective net assets as at the Valuation Date would be reflective of their market values as holding companies.

4.6 Key Bases

The key bases adopted in the valuation of the Targets are as follows:

i. The Services are based on generally accepted valuation procedures and practices that rely on the use of assumptions and considerations of uncertainties that cannot be easily quantified or ascertained;

ii. The analysis leading to DCAS' valuation presents an assessment based on DCAS' best professional judgment and experience. The Clients should note that there would usually be differences between the projections and the actual results because events and circumstances frequently do not occur as expected and these differences may be material;

iii. By its very nature, DCAS' valuation work cannot be regarded as an exact science and the conclusions arrived in many cases will of necessity be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value. Whilst DCAS consider the valuation to be both reasonable and defensible based on the information available to DCAS, others may place a different value on the Targets;

iv. In arriving at the valuation of the Targets, DCAS has relied on the information and data supplied by the Management. DCAS is not required to and has not carried out an audit on the financial statements or the underlying assumptions to the projections;

v. DCAS has made necessary enquiries on the information provided including the Targets' projections. DCAS has not verified the information or materials provided during the performance of the Services;

vi. The detailed historical financial information of the Targets for the FY2018 to FY2023 provide a true and fair view of the Targets' financial positions and financial performances;

vii. The findings and assumptions of the valuations have been discussed with the Management prior to finalisation, we understand that the Management is agreeable to and responsible for the assumptions the projection relied on;

viii. The Services have assumed that the Targets are and will continue as a going concern;

ix. There are no undisclosed actual or contingent assets or liabilities which would have a material effect on the financial positions of the Targets;

x. There will be no material changes in the present legislation, government regulations, inflation rates, interest rates, foreign exchange rates, bases and rates of taxation and other lending guidelines which will affect the activities of the Targets;

xi. For presentation purposes, DCAS has rounded the disclosed percentages and whole numbers to the nearest unit. Due to rounding, the numbers presented throughout this Valuation Letter may not add up precisely to the totals provided; and

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4.6 Key Bases (Cont'd)

xii. The principal sources of information from the Management which have been considered in the Services include, but is not limited to, the following:

- Audited financial statements of the Targets from FY2018 to FY2023;
- Detailed historical financial information of the Targets from FY2018 to FY2023;
- Capital A's plan for reorganisation and capitalisation of debts;
- Annual reports of Capital A from FY2017 to FY2023;
- Quarterly operating statistics provided by the Management from FY2018 to FY2023;
- Fleet details provided by Management for FY2019 to FY2023;
- Historical jet fuel (Mean of Platts Singapore) prices from January 2017 to December 2023; Forecast projections of the Targets from FY2024 to FY2028; and
- Published market information from the public domain.

5.0 Valuation of the Targets

5.1 Key assumptions applied in the income approach for the AOC

The AOC include AAB, IAA, PAA, and TAA. Where applicable, DCAS will make a reference to FY2019 as a base year in analysing the projections of each AOC, as FY2019 represents the financial performance of the AOC prior to the COVID-19 pandemic.

5.1.1 AAB

Revenue

- AAB is a low-cost passenger airline which provides air transportation services out of Malaysia. As at the Valuation Date, AAB has more than 100 leased aircraft and serves around 50 destinations with more than 80 routes.
- AAB's revenue streams mainly consist of:
  i. Passenger revenues which relate to scheduled passenger flight, chartered flight income and ancillary revenue including insurance charge and baggage fee etc. It is expected to contribute circa ("c.") 99.0% of the total projected revenue between FY2024 and FY2028; and
  ii. Revenue from freight services which relate to shipment of goods through air carrier. It is expected to contribute c. 1.0% of the total revenue between FY2024 and FY2028.
- The total revenue is expected to grow at a compound annual growth rate ("CAGR") of c. 13.0% between FY2024 and FY2028 and c. 6.0% between FY2019 and FY2028.

Operating expenditure

- The operating expenditure includes fuel costs, operating leases, maintenance and overhaul expenses, user charges, staff costs and other costs.

Others

- Unutilised tax losses of AAB are expected to be utilised and offset against its projected Earnings Before Interest and Tax ("EBIT") between FY2024 to FY2028. Tax expenses are assumed in the terminal period at Malaysia statutory tax rate of 24.0%.
- Capital expenditure for non-aircraft operating assets is projected at c. 1.0% of the total projected revenue between FY2024 and FY2028.

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Others (cont'd)

- The working capital requirements of AAB have been assumed as follows:
    i. Trade receivable turnover days of less than 2 weeks;
    ii. Trade payable turnover days between 30 and 45 days; and
    iii. Other working capital requirements are based on historical trends and discussions with Management.
- The cash flows are projected to grow in perpetuity after FY2028, using a terminal year growth rate of c. 2.0%, being the 20-year long-term inflation rate in Malaysia sourced from Economist Intelligence Unit ("EIU").

5.1.2 IAA

Revenue

- IAA is a low-cost passenger airline which provides air transportation services out of Indonesia. As at the Valuation Date, it has more than 30 leased aircraft and serves around 20 destinations with more than 30 routes.
- Its revenue streams mainly consist of:
    i. Passenger revenues which relate to scheduled passenger flights, chartered flight income and ancillary revenue including insurance charge and baggage fee etc. It is expected to contribute c. 98.0% of the total projected revenue between FY2024 and FY2028; and
    ii. Revenue from freight services which relate to shipment of goods through air carrier. It is expected to contribute c. 2.0% of the total revenue between FY2024 and FY2028.
- The total revenue is expected to grow at a CAGR of c. 21.0% between FY2024 and FY2028 and c. 14.0% between FY2019 and FY2028.

Operating expenditure

- The operating expenditure includes fuel costs, operating leases, maintenance and overhaul expenses, user charges, staff costs and other costs.

Others

- Unutilised tax losses of IAA are expected to be utilised and offset against its projected EBIT between FY2024 to FY2027. Tax expenses have been assumed from FY2028 onwards at Indonesia statutory tax rate of 22.0%.
- Capital expenditure for non-aircraft operating assets is projected at c. 1.0% of the total projected revenue between FY2024 and FY2028.
- The working capital requirements of IAA have been assumed as follows:
    i. Trade receivable turnover days of less than 1 week;
    ii. Trade payable turnover days between 30 and 45 days; and
    iii. Other working capital requirements based on historical trends and discussions with Management.
- The cash flows are projected to grow in perpetuity after FY2028, using a terminal year growth rate of c. 3.0%, being the 20-year long-term inflation rate in Indonesia sourced from EIU.

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5.1.3 PAA

Revenue

- PAA is a low-cost passenger airline which provides air transportation services out of Philippines. As at the Valuation Date, it has more than 20 leased aircraft and serves more than 20 destinations with more than 20 routes.
- Its revenue streams mainly consist of:
  - i. Passenger revenues which relate to scheduled passenger flight, chartered flight income and ancillary revenue including insurance charge and baggage fee etc. It is expected to contribute c. 99.0% of the total projected revenue between FY2024 and FY2028; and
  - ii. Revenue from freight services which relate to shipment of goods through air carrier. It is expected to contribute c. 1.0% of the total revenue between FY2024 and FY2028.
- The total revenue is expected to grow at a CAGR of c. 15.0% between FY2024 and FY2028 and c. 11.0% between FY2019 and FY2028.

Operating expenditure

- The operating expenditure includes fuel costs, operating leases, maintenance and overhaul expenses, user charges, staff costs and other costs.

Others

- Unutilised tax losses of PAA are expected to be utilised and offset against its projected EBIT in FY2024 and FY2025. Tax expenses are assumed from FY2026 onwards at Philippines statutory tax rate of 25.0%.
- Capital expenditure for non-aircraft operating assets is projected at c. 2.0% of the total projected revenue for FY2024 and FY2028.
- The working capital requirements of PAA have been assumed as follows:
  - i. Trade receivable turnover days of less than 1 week;
  - ii. Trade payable turnover days between 30 and 70 days; and
  - iii. Other working capital requirements are based on historical trends and discussions with Management.
- The cash flows are projected to grow in perpetuity after FY2028, using the terminal year growth rate of c. 3.0%, being the 20-year long-term inflation rate in Philippines sourced from EIU.

5.1.4 TAA

Revenue

- TAA is a low-cost passenger airline which provides air transportation services out of Thailand. As at the Valuation Date, it has more than 50 leased aircraft and serves around 50 destinations with more than 60 routes.
- Its revenue streams mainly consist of:
  - i. Passenger revenues which relate to scheduled passenger flight, chartered flight income and ancillary revenue including insurance charge and baggage fee etc. It is expected to contribute c. 99.0% of the total projected revenue between FY2024 and FY2028; and
  - ii. Revenue from freight services which relate to shipment of goods through air carrier. It is expected to contribute c. 1.0% of the total revenue between FY2024 and FY2028.

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5.1.4 TAA (Cont'd)

- The total revenue is expected to grow at a CAGR of c. 11.0% between FY2024 and FY2028 and c. 5.0% between FY2019 and FY2028.

Operating expenditure

- The operating expenditure includes fuel costs, operating leases, maintenance and overhaul expenses, user charges, staff costs and other costs.

Others

- Unutilised tax losses of TAA are expected to be utilised and offset against its projected EBIT between FY2024 to FY2027. Tax expenses are assumed from FY2028 onwards at Thailand statutory tax rate of 20.0%.
- Capital expenditure for non-aircraft operating assets is projected at 0.2% of the total projected revenue between FY2024 and FY2028.
- The working capital requirements of TAA have been assumed as follows:
  i. Trade receivable turnover days of less than 1 week;
  ii. Trade payable turnover days between 30 and 45 days; and
  iii. Other working capital requirements are based on historical trends and discussions with Management.
- The cash flows are projected to grow in perpetuity after FY2028, using a terminal year growth rate of c. 1.0%, being the 20-year long-term inflation rate in Thailand sourced from EIU.

5.1.5 Discount rates

- The discount rates adopted have been developed based on the weighted average cost of capital ("WACC"). Amongst others, the WACC are based on the following:
  i. Cost of equity with reference to the respective markets which the AOC operate in using the international cost of capital ("ICOC") approach, which assumes adjustments for country risk factors and inflation differentials from a cost of capital benchmark based on a mature financial market. The United States ("US") have been applied as a benchmark, and a US equity risk premium of c. 5.0%, adjusted for country risk and inflation rate differentials ranging from c. 2.0% to 4.0% have been adopted;
  ii. Pre-tax cost of debt ranges from c. 6.0% to c. 9.0%;
  iii. Debt-to-capital ratio of c. 30.0%; and
  iv. Additional risk premiums, as appropriate, to consider uncertainties and risks attributable to the cash flow projections of the respective AOC.
- The adopted WACC for the respective AOC are summarised as below:
  i. AAB: 12.5% to 14.5%;
  ii. IAA: 17.5% to 19.0%;
  iii. PAA: 17.0% to 19.0%; and
  iv. TAA: 12.0% to 14.5%.

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5.2 Key assumptions applied in the market approach for the AOC

- Forward EBITDAR has been considered given that the AOC operations are expected to recover to pre COVID-19 levels in the projection period, consistent with general market consensus of the recovery of the overall airline industry.
- Low-cost carriers which mainly provide air transportation services within the Asia Pacific region have been selected as comparable companies. The GPC are enclosed in the Appendix of this Letter.

5.3 Key assumptions applied in the adjusted book value approach for the holding companies

- The holding companies which include AAAGL, AAID, AAI and AAV have been valued based on their adjusted book value.
- The audited net book value of the respective holding companies as of the Valuation Date has been adopted.
- Adjustments to the book value will mainly pertain to the fair value upliftment of their investments in subsidiaries based on the market values of the AOC derived in the preceding section of this Valuation Letter.
- The carrying amount of other assets and liabilities have been assumed to approximate their market value.

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5.4 Income approach

Under the income approach, the 100% equity value of the AOC including AAB, IAA, PAA, and TAA on marketable and control basis are as follows:

Table 2 – Indicative value of the Targets based on income approach

	AAB		**IAA**		**PAA**		**TAA**	
	Low range (RM'mil)	**High range (RM'mil)**	**Low range (IDR'bil)**	**High range (IDR'bil)**	**Low range (PHP'mil)**	**High range (PHP'mil)**	**Low range (THB'mil)**	**High range (THB'mil)**
Discount rates	14.5%	12.5%	19.0%	17.5%	19.0%	17.0%	14.5%	12.0%
BEV	2,278	3,158	3,683	4,345	17,020	21,679	25,757	31,889
Adjustment for:								
Net (debt) / cash	1,444	1,444	(3,031)	(3,031)	(10,997)	(10,997)	(1,792)	(1,792)
Equity value	3,721	4,602	652	1,314	6,023	10,683	23,966	30,098
Equity value (USD'mil)	**811**	**1,003**	**42**	**85**	**109**	**193**	**697**	**875**
Equity value (RM'mil)	**3,721**	**4,602**	**196**	**394**	**499**	**885**	**3,198**	**4,016**

Source: Audited financial statements, Management information, DCAS analysis
Note:
- *Mil denotes millions and bil denotes billions.*
- *Due to rounding, the numbers presented in the table may not add up precisely to the totals provided.*

DCAS has cross-checked the valuation ranges from the income approach to market approach and the outcomes support the value ranges above.

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5.5 Adjusted book value approach

Under the adjusted book value approach, the 100% equity value of AAAGL, AAV, AAI and AAID are as follows:

Table 3 – Indicative value of AAAGL, AAV, AAI and AAID based on adjusted book value approach

	AAAGL		**AAV**		**AAI**		**AAID**	
	Low range (USD'mil)	**High range (USD'mil)**	**Low range (THB'mil)**	**High range (THB'mil)**	**Low range (PHP'mil)**	**High range (PHP'mil)**	**Low range (IDR'bil)**	**High range (IDR'bil)**
Audited book value	183	183	17,015	17,015	6,176	6,176	2,567	2,567
Adjustments:								
(1) Upliftment in fair value of investments	(61)	116	7,081	13,213	6,003	10,646	(2,228)	(1,849)
(2) Capital contribution from Capital A arising from the capitalisation of the intercompany debts.	505	505	n/a	n/a	n/a	n/a	n/a	n/a
(3) Cost of investment for the acquisition of 100% equity interest in AA Com Travel Philippines Inc.	(0.2)	(0.2)	n/a	n/a	n/a	n/a	n/a	n/a
Adjusted book value	628	805	24,095	30,227	12,178	16,822	339	718
Equity value (USD'mil)	**628**	**805**	**701**	**879**	**220**	**304**	**22**	**47**
Equity value (RM'mil)	**2,880**	**3,691**	**3,215**	**4,034**	**1,008**	**1,393**	**102**	**215**

Source: Audited financial statements, Management information, DCAS analysis
Note:
- *Mil denotes millions and bil denotes billions.*
- *Due to rounding, the numbers presented in the table may not add up precisely to the totals provided.*
- *Audited book values have been adjusted to reflect the latest plan for internal reorganisation and capitalisation of debts to be completed prior to the Proposed Transaction.*

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5.5 Adjusted book value approach (Cont'd)

Note: Upliftment in fair value of AAAGL's investments are shown as below:

	Low range (USD'mil)	High range (USD'mil)
• 20.95% equity interest in IAA	9	18
• 40.71% equity interest in AAV	285	358
• 100.00% equity interest in AA Com Travel Philippines Inc	116	166
• 40.00% equity interest in AAI	88	121
• Investment in convertible bond issued by AAI	25	25
• 46.25% equity interest in AAID	10	22
Total	**533**	**710**
Less: Adjusted carrying amount of AAAGL's investments as at 31 December 2023	(594)	(594)
Upliftment in fair value of AAAGL's investments	**(61)**	**116**

Note: Carrying amount of AAAGL's investments have been adjusted to reflect the proposed novation of perpetual capital securities from AAB to AAAGL, to be completed prior to the Proposed Transaction.

6.0 Key risk factors

This section highlights some of the inherent key risk factors in the financial projections adopted in the valuation of the AOC including AAB, IAA, PAA, and TAA.

Correspondingly, the holding companies including AAAGL, AAID, AAI and AAV would also be subject to the same risk factors due to their shareholdings in the underlying AOC.

i. Recovery of demands for the AOC's air transportation services

The AOC are expected to recover to its pre-pandemic revenue in FY2024 which is in line with the overall increase in demands for air transportation services post-pandemic. However, there is no certainty that the speed of recovery would be in line with the projection by the AOC.

ii. Ability to achieve planned capacity expansion

The projected growth in revenue of the AOC is expected to be contributed by the growth in the number of stages and expansion of new routes.

This is dependent on the timely delivery of aircraft from suppliers to be utilised in servicing the increased capacity, which is inherently uncertain given the current backlog prevalent in the aircraft supply industry. Further, there are also uncertainties in securing the necessary approvals to fly the new routes.

iii. Ability to achieve projected improvement in profitability margins

The AOC are expected to achieve improvement in margins between FY2024 and FY2028 due to economies of scale and cost optimization initiatives by the Management. However, there is no guarantee of the achievability of the projected growths and margins.

iv. Fluctuations of exchange rate and movement in crude oil prices

Fuel cost is a major cost component in the AOC operations, price of which is closely related to movement in crude oil prices. Most of the AOC's costs, including fuel costs are also denominated in USD. Fluctuations in fuel prices and exchange rates will therefore potentially contribute to uncertainties in the projected cash flows of the AOC.

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7.0 Conclusion

Based upon and subject to the foregoing and other information used in the preparation of this Letter, DCAS has estimated the values of 100% equity interests in the Targets on a marketable and control basis, as shown below:

Table 4 – Summary of indicative value of the Targets in their respective reporting currencies and USD

			Reporting currency		USD'mil		RM'mil	
Entity	**Country of incorporation**	**Reporting currency**	**Low range**	**High range**	**Low range**	**High range**	**Low range**	**High range**
AOC								
AAB	Malaysia	RM'mil	3,721	4,602	811	1,003	3,721	4,602
IAA	Indonesia	IDR'bil	652	1,314	42	85	196	394
PAA	Philippines	PHP'mil	6,023	10,683	109	193	499	885
TAA	Thailand	THB'mil	23,966	30,098	697	875	3,198	4,016
Holding companies								
AAAGL	Malaysia	USD'mil	628	805	628	805	2,880	3,691
AAID	Indonesia	IDR'bil	339	718	22	47	102	215
AAI	Philippines	PHP'mil	12,178	16,822	220	304	1,008	1,393
AAV	Thailand	THB'mil	24,095	30,227	701	879	3,215	4,034

Source: Audited financial statements, Management information, DCAS analysis

The equity values of the Targets above are based on several assumptions set out in the previous sections. As with all assumptions, there are inherent uncertainties and there can be no guarantee that the assumptions will be achieved. The valuation ranges should be considered together with the key bases and assumptions adopted.

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8.0 Restriction

This Valuation Letter is prepared strictly and solely for inclusion in the Circular. The valuation of 100% equity interest in the Targets should be considered in the context of the entirety of this Letter. Save for the purpose of public inspection in relation to the Proposed Transaction and other public documents to be made in accordance with the rules and regulations set out by the relevant authorities, this Letter may not be reproduced, disseminated or quoted for any other purpose without DCAS' prior written consent.

This Letter is governed by, and should be construed in accordance with, the laws of Malaysia, and are strictly limited to the matters stated herein. DCAS reserves the right to amend this Letter in terms of its format and contents before providing our consent.

Accordingly, we are not responsible or liable for any form of losses however occasioned to any third party as a result of the circulation, publication, reproduction or use of, or reliance on this Letter, in whole or in part, contrary to the provision set out in this Letter and our Engagement Letter.

Neither DCAS nor any of its members or employees undertakes responsibilities arising in any way whatsoever to any person in respect of this Letter, including any error or omission therein, however caused, as a result of the unauthorised circulation, publication, reproduction or use of this Letter, or any part hereof.

We are under no obligation to update this Letter in respect of events or information that came to our attention subsequent to the date of this Letter.

Yours faithfully,

DELOITTE CORPORATE ADVISORY SERVICES SDN. BHD.

Leonard Woo
Executive Director

Yap Kong Meng
Executive Director

encl.
Appendix: Guideline Public Companies

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Appendix – Guideline Public Companies

No.	Name	Country	Business description
1	Air Busan Co., Ltd.	South Korea	Air Busan Co., Ltd. provides passenger airline services. It offers domestic and international flight services.
2	AirAsia X Berhad	Malaysia	AirAsia X Berhad, together with its subsidiaries, provides long haul air transportation services under the AirAsia X brand in Malaysia, Thailand, and Indonesia. The company also offers logistical Management and marketing services; and leases aircraft facilities.
3	Asia Aviation Public Company Limited	Thailand	Asia Aviation Public Company Limited, through its subsidiary, provides airline services in Thailand. The company operates through Scheduled Flight Operations and Charter Flight Operations segments.
4	Capital A Berhad	Malaysia	Capital A Berhad, an investment holding company, provides air transportation services internationally under the AirAsia brand. It also offers management, engineering, tour operating, consultancy services, inflight services as well as provides logistic and payment services for cross border e-commerce marketing.
5	Cebu Air, Inc.	Philippines	Cebu Air, Inc., an airline, provides international and domestic air transportation services. It offers scheduled air travel services and ancillary services to passengers, as well as airport-to-airport cargo services on its domestic and international routes. Cebu Air, Inc. operates as a subsidiary of CP Air Holdings, Inc.
6	InterGlobe Aviation Limited	India	InterGlobe Aviation Limited provides air transportation services in India and internationally. The company primarily operates IndiGo passenger airline. It also offers ancillary products and services comprising cargo, service requests, ticket modification and cancellation, in-flight sales, ground handling, and tour services.
7	Jeju Air Co., Ltd.	South Korea	Jeju Air Co., Ltd. provides airline services in South Korea, Japan, China, Taiwan, the Philippines, Vietnam, Thailand, and Guam. It also offers in-flight, airport, and other additional services. Jeju Air Co., Ltd. is a subsidiary of AK Holdings, Inc.
8	Nok Airlines Public Company Limited	Thailand	Nok Airlines Public Company Limited, together with its subsidiaries, provides air transport services for passengers, and parcels and parcel posts in Thailand.
9	PT AirAsia Indonesia Tbk	Indonesia	PT AirAsia Indonesia Tbk, through its subsidiary, PT Indonesia AirAsia, provides scheduled commercial air transport services in Indonesia.
10	SpiceJet Limited	India	SpiceJet Limited offers passengers and cargo air transportation services under the SpiceJet brand name. It operates 98 fleets covering 250 routes, which include 212 domestic and 38 international destinations.
11	Spring Airlines Co., Ltd.	China	Spring Airlines Co., Ltd. engages in the air passenger and cargo transportation business in China. The company also provides services related to air transportation. Spring Airlines Co., Ltd. is a subsidiary of Shanghai Spring International Travel Services Ltd.

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Source: Capital IQ, DCAS analysis

Appendix – Guideline Public Companies (cont'd)

No.	Name	Country	Business description
12	T'Way Air Co., Ltd.	South Korea	T'Way Air Co., Ltd. provides air transportation services. The company was formerly known as Hansung Airlines Co. Ltd. and changed its name to T'Way Air Co., Ltd. in August 2010.
13	Tigerair Taiwan Co., Ltd.	Taiwan	Tigerair Taiwan Co., Ltd. provides airline services. It offers air transportation services for passengers and cargo, and ground handling services. Tigerair Taiwan Co., Ltd. is a subsidiary of China Airlines Co., Ltd.
14	VietJet Aviation Joint Stock Company	Vietnam	VietJet Aviation Joint Stock Company provides passenger and cargo air transportation services, and airline-related support services. It also provides aircraft rental and in-flight advertising services; and trades in and leases aircraft and aircraft components, as well as offers ancillary and payment services.

Source: Capital IQ, DCAS analysis

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Deloitte.

10 September 2024

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

Attention: Ms. Pattra Boosarawongse, Group Chief Financial Officer

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

Attention: Encik Benyamin Ismail, Chief Executive Officer

ASSESSMENT OF THE ISSUANCE OF REVENUE BOND ON THE VALUATION OF AIRASIA BERHAD, AIRASIA AVIATION GROUP AND ITS SUBSIDIARIES

1.0 Introduction

Further to the issuance of the valuation letter on 25 July 2024, Capital A and AAX have requested DCAS to evaluate the impact of issuance of Revenue Bond (as hereinafter defined) which has been secured on 21 August 2024 after the date of issuance of the valuation letter, on the valuation of the Targets as defined in the valuation letter dated 25 July 2024.

Unless otherwise stated, the abbreviations or definitions in this document have the same meaning as those in the valuation letter dated 25 July 2024.

Subsequent to the Letter, AAB's wholly owned subsidiary, AirAsia RB1 Ltd ("AARB1") has on 21 August 2024, entered into agreement with its aircraft lessors and private credit funds for the issuance of bonds with the following terms:

i. Tranche 1 – USD 243.0 mil with an interest rate of 7% per annum repayable within two years (i.e., by September 2026); and
ii. Tranche 2 – USD 200.0 mil with an interest rate of 14% per annum repayable within four years (i.e., by August 2028).

Further details on the terms of the bonds can be found in the Circular to the shareholders of Capital A and AAX ("Revenue Bond").

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2.0 Assessment

Save as expressly mentioned in this document, all the other assumptions undertaken in the valuation of the Targets remain the same as those stated in the valuation letter dated 25 July 2024.

As disclosed in our valuation letter dated 25 July 2024, DCAS has applied the income approach as the primary method in valuing the AOCs, including AAB.

We understand from the Management that the Revenue Bond is used for repayment of existing lease payables and for working capital purposes. As such, the Revenue Bond is deemed as an operational rather than a financing debt.

Based on this understanding, the impact of the Revenue Bond would therefore be assessed based on the incremental cash inflows and outflows arising from the drawdown and repayment of the principal and interest and associated tax savings based on the contractual terms of the Revenue Bond between FY2024 and FY2028.

These cash flows will form part of the incremental net working capital funding which will be attributed to AAB during the tenure of the Revenue Bond.

Further, as the Revenue Bond is used to fund AAB's existing operations, it is assumed that there are no other changes in the assumptions to arrive at the projected cash flows of AAB.

3.0 Impact of valuation

The impact of Revenue Bond on the valuation of AAB is summarised in the table below:

Table 1 – Comparison of the indicative value of AAB based on cash flows before and after the issuance of Revenue Bond

	As of valuation letter dated 25 July 2024		**Assessment on valuation after Revenue Bond**	
	Low range (RM'mil)	**High range (RM'mil)**	**Low range (RM'mil)**	**High range (RM'mil)**
Discount rate	14.5%	12.5%	14.5%	12.5%
BEV	2,278	3,158	2,291	3,119
Adjustment for:				
Net (debt) / cash	1,444	1,444	1,444	1,444
Equity value of AAB	3,721	4,602	3,735	4,563
Equity value of AAB (USD'mil)	**811**	**1,003**	**814**	**995**

Note:
- Mil denotes millions.
- Due to rounding, the numbers presented in the table may not add up precisely to the totals provided.

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3.0 Impact of valuation (Cont'd)

The midpoint of equity value of AAB after Revenue Bond is RM4,149 mil, which is lower than RM4,161 mil based on the valuation letter dated 25 July 2024. The difference arises from the following factors, including:

i. Lower average interest rate on the Revenue Bond as compared to the adopted discount rate of AAB;
ii. Additional transaction cost arising from the Revenue Bond facility; and
iii. Tax savings arising from interest payments on Revenue Bond.

Yours faithfully,

DELOITTE CORPORATE ADVISORY SERVICES SDN. BHD.

Leonard Woo
Executive Director

Yap Kong Meng
Executive Director

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WYNCORP
CORPORATE FINANCE ADVISOR

24 September 2024

The Board of Directors
AIRASIA X BERHAD
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa
Kuala Lumpur
64000 KLIA, Selangor
Malaysia

Dear Sirs,

AIRASIA X BERHAD ("AAX" OR "COMPANY" OR "PURCHASER")

EXPERT'S REPORT ON THE FAIRNESS OF THE PURCHASE CONSIDERATION FOR THE PROPOSED ACQUISITION FROM CAPITAL A BERHAD ("CAPITAL A") OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED ("AAAGL") ("EXPERT'S REPORT")

Unless otherwise stated herein, the terms and abbreviations used in this Expert's Report shall have the same meanings as set out in the "Definitions" Section of the Circular.

1. INTRODUCTION

On 25 April 2024, the Company had entered into a conditional internal reorganisation agreement with AAG for the implementation of a proposed internal reorganisation by way of a members' scheme of arrangement under Section 366 of the Act ("**Proposed Internal Reorganisation**") comprising the following ("**Internal Reorganisation Agreement**"): -

(i) the proposed exchange of all Shares with new ordinary shares in AAG ("**AAG Share(s)**") on the basis of 1 new AAG Share for every 1 existing Share held by the entitled Shareholders on an entitlement date to be determined by the Board and announced later; and

(ii) the proposed assumption by AAG of the listing status of AAX and the admission of AAG to, and the withdrawal of AAX from, the Official List with the listing and quotation of the entire enlarged issued share capital of AAG on the Main Market of Bursa Securities.

On even date, AAG had entered into, amongst others, the AAAGL SSPA with Capital A for the Proposed AAAGL Acquisition.

In order to expedite the implementation and completion of the Proposals (including the Proposed AAAGL Acquisition) (if approved by Shareholders), the Board had on 26 July 2024 decided to abort the Proposed Internal Reorganisation and to undertake the Proposals (including the Proposed AAAGL Acquisition) under AAX instead of AAG as initially proposed. Accordingly, the Company and AAG had on 26 July 2024 mutually terminated the Internal Reorganisation Agreement.

In addition, on 26 July 2024, the Company, AAG and Capital A had amongst others, entered into supplemental agreement to the AAAGL SSPA. Pursuant to the supplemental agreement dated 26 July 2024, AAX has assumed the rights and obligations of AAG to the AAAGL SSPA as the purchaser in respect of the Proposed AAAGL Acquisition.

Further, the Company and Capital A had on 4 September 2024 entered into second supplemental agreement to the AAAGL SSPA. Pursuant to the second supplemental agreement dated 4 September 2024, the approvals and/or consents of lenders / financiers of the AAAGL Group for the release and/or discharge of any corporate guarantee and/or security provided by the Capital A Group Post Disposal in favour of lenders / financiers of the AAAGL Group shall be obtained before the date of completion of the Proposed AAAGL Acquisition.

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The purchase consideration for the Proposed AAAGL Acquisition amounting to RM3,000.00 million ("**AAAGL Purchase Consideration**") to be satisfied entirely via the allotment and issuance of 2,307,692,307 new Shares ("**Consideration Shares**") at an issue price of RM1.30 each.

In accordance with Appendix 10B, Part F, Item (4) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Listing Requirements**"), where any one of the percentage ratios is 25% or more in relation to foreign securities or assets proposed to be acquired, an expert's report on the fairness of the total purchase consideration for the foreign securities or assets proposed to be acquired shall be prepared and included within the circular to shareholders for the transaction.

The Proposed AAAGL Acquisition falls within the scope as provided under Appendix 10B, Part F, Item (4) of the Listing Requirements. Accordingly, WYNCORP Advisory Sdn Bhd (**"WYNCORP"**) has been appointed by AAX to provide an Expert's Report that opines on the fairness of the AAAGL Purchase Consideration payable by AAX for the Proposed AAAGL Acquisition ("**Expert's Report**").

WYNCORP's opinion and the Expert's Report may not be quoted, referred to or otherwise disclosed, in whole or in part, in any document other than for inclusion in the Circular. Additionally, this Expert's Report is not intended to be and does not constitute a recommendation by us on the Proposed AAAGL Acquisition. It is not intended to be relied on to address the business concerns and risks pertaining to the AAAGL Group.

2. SCOPE AND LIMITATIONS OF OUR EVALUATION ON THE FAIRNESS OF THE PURCHASE CONSIDERATION FOR THE PROPOSED AAAGL ACQUISITION

<u>Declaration of independence</u>
Save for being mandated to act in the professional capacity for the issuance of this Expert's Report and the independent advice letter (as contained in Part B of the Circular), WYNCORP and/or its directors and staff who are involved in this exercise neither own any equity ownership in AAX's or Capital A's shares, nor involved in the provision of any other advisory services to AAX or Capital A.

<u>Principal sources of information</u>
WYNCORP was not involved in any formulation of, or any deliberations and negotiations on, the terms and conditions pertaining to the Proposed AAAGL Acquisition. In arriving at our opinion on the fairness of the purchase consideration for the Proposed AAAGL Acquisition, we have relied on, inter-alia, the following information and/or documents made available to us by the management of AAX: -

(i) the AAAGL SSPA and the supplemental agreements to the AAAGL SSPA;

(ii) the audited financial statements of AAAGL Group comprising the following: -

- audited financial statements of AAAGL for the FYEs 31 December 2023, 2022 and 2021;
- audited consolidated financial statements of AAID for the FYEs 31 December 2023, 2022 and 2021;
- audited financial statements of AAI for the FYEs 31 December 2023, 2022 and 2021;
- audited consolidated financial statements of AAV for the FYEs 31 December 2023, 2022 and 2021;
- audited financial statements of IAA, PAA and TAA respectively for the FYEs 31 December 2023, 2022 and 2021;

(iii) the valuation letter issued by Deloitte on the indicative fair values of 100% equity interests in AAAGL;

(iv) the Circular and the accompanying appendices;

(v) other relevant information, documents and representations furnished to us by the representatives of AAX; and

(vi) other publicly available information which we consider relevant for our evaluation.

We have relied on the Board and management of AAX to take due care in ensuring that all information, data, documents and representations provided to us to facilitate our evaluation are accurate, valid, complete, reasonable and free from omission in all material respects. WYNCORP has not conducted any audit or other verification procedures in respect of any financial and non-financial data and information used in our evaluation. Accordingly, WYNCORP shall not assume any responsibility or liability whatsoever to any party for any inaccuracies, misstatements or omissions of facts and information provided or represented by the Board and management of AAX. It is not within our terms of reference to express any opinion on legal, accounting, auditing and taxation issues relating to the Proposed AAAGL Acquisition.

Please note that our opinion and evaluation is based on the valuation as of 31 December 2023 ("**Evaluation Date**") and the economic, market and other conditions prevailing as at the Evaluation Date, except otherwise specifically mentioned herein. Such conditions may change significantly over a short period of time after the Evaluation Date and the date of this Expert's Report. It should be noted that our evaluation and opinion expressed in this Expert's Report do not consider any subsequent information, events or conditions arising after the Evaluation Date or such other period as specified herein.

3. OVERVIEW OF AAAGL GROUP

AAAGL was incorporated in Labuan on 11 September 2003 under the Labuan Companies Act 1990 as a private limited company. AAAGL was formerly known as AA International Ltd until 17 November 2011, AirAsia Investment Ltd until 6 October 2021 and AirAsia Aviation Limited until 6 February 2022, after which it assumed its current name on 7 February 2022.

As at the LPD, the issued share capital of AAAGL is USD5,270,000 comprising 5,270,000 ordinary shares in AAAGL. As at the LPD, AAAGL is a direct wholly-owned subsidiary of Capital A, being the Vendor for the Proposed AAAGL Acquisition.

The directors of AAAGL as at the LPD are Tan Sri Jamaludin bin Ibrahim, Tharumalingam A/L Kanagalingam (better known as "**Bo Lingam**"), Suvabha Charoenying, Lim Serh Ghee, Francisco Edralin Lim and Khoo Gaik Bee.

The principal activity of AAAGL is investment in shares outside Malaysia. Through its subsidiaries, TAA, PAA, IAA and CAA, the AAAGL Group provides air transport services from Thailand (commenced business in second quarter of 2004), the Philippines (commenced business in first quarter of 2012), Indonesia (commenced business in second quarter of 2005) and Cambodia (commenced business in May 2024).

Further information on AAAGL is set out in Appendix IV of the Circular.

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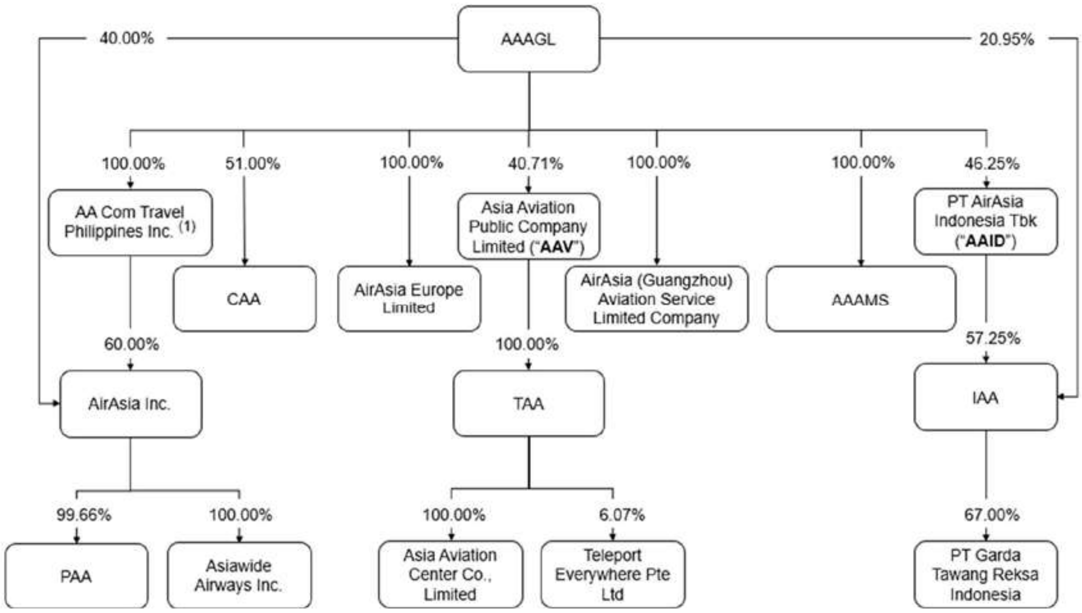
CORPORATE FINANCE ADVISOR

As at the Evaluation Date, the composition of AAAGL Group is as follows: -



Note: -

(1) The acquisition of 100% equity interest in AA Com Travel Philippines Inc. by AAAGL from AirAsia Com Travel Sdn Bhd, a subsidiary of Capital A, was completed on 25 March 2024. In appraising the indicative fair values of AAAGL, Deloitte has been instructed by the management of Capital A and AAX to take into consideration the net assets of AA Com Travel Philippines Inc. as if the said acquisition has been completed as at the Evaluation Date.

4. INDUSTRY OUTLOOK AND PROSPECTS

We take cognisance of the industry outlook and prospects as set out in Sections 9.1 and 9.2, Part A of the Circular.

Based on the IMR Report, the aviation industry will benefit from improved economic activities, which will spur leisure and business travel and drive the demand for passenger air services. Low-cost carriers are believed to be able to continue increasing their growth and penetration in the aviation industry due to their core advantage of offering value flight services at lower-priced fares by placing emphasis on the core service which is transporting passengers by air from one destination to another with minimal complimentary ancillary services. Hence, low-cost carriers are generally more resilient and flexible in managing their cost structure to be able to offer low fares amidst sustaining through crises such as the COVID-19 pandemic. Moving forward, the sustainability of low-cost carriers is expected to be supported by the various factors as set out in Section 9.1, Part A of the Circular, alongside their leverage on the recovery in air travel and surging demand for leisure travel as they continue to increase their capacity and rebuild their networks.

Please refer to Sections 9.1 and 9.2, Part A of the Circular for the further details on the industry outlook and prospects.

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CORPORATE FINANCE ADVISOR

5. RISKS OF THE PROPOSED AAAGL ACQUISITION

We take cognisance of the risk factors as set out in Section 10, Part A of the Circular.

The Proposed AAAGL Acquisition will subject the Group to the following key risks, which are by no means exhaustive: -

(a) Non-completion risk
(b) Investment risk
(c) Projection risk
(d) Goodwill and impairment risk
(e) Risk of triggering Practice Note 17 of the Listing Requirements
(f) Limitation of liabilities
(g) Financing and default risk
(h) Foreign exchange risk
(i) Risk of reliance on "AirAsia" brand (including "AirAsia X" brand) and AirAsia Ecosystem
(j) Foreign investment risk
(k) Dilution of existing shareholdings of AAX Shareholders

Please refer to Section 10, Part A of the Circular for the further details on risks of the Proposed Acquisitions (including the Proposed AAAGL Acquisition).

6. EVALUATION ON THE FAIRNESS OF THE PURCHASE CONSIDERATION FOR THE PROPOSED AAAGL ACQUISITION

We take cognisance of the basis and justification for the AAAGL Purchase Consideration as set out in Section 4.3, Part A of the Circular. In justifying the AAAGL Purchase Consideration, the Board (save for Interested Directors of AAX) has taken into consideration the following: -

(i) Rationale and benefits of the Proposed AAAGL Acquisition as set out in Section 8.3, Part A of the Circular;

(ii) Outlook of the aviation industry and prospect of the AAAGL Group and the New Aviation Group as set out in Section 9, Part A of the Circular;

(iii) Deloitte has been appointed by Capital A and AAX to conduct an independent valuation on AAAGL Group. The AAAGL Purchase Consideration falls within the range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at the valuation date of 31 December 2023 based on the valuation undertaken by Deloitte (further details of which as set out in the Valuation Letter attached in Appendix VI(A) of the Circular); and

(iv) The AAAGL Purchase Consideration (RM3,000.00 million) represents a discount of approximately RM285.50 million or 8.69% to the mid-point of the valuation range for AAAGL (being RM3,285.50 million).

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6.1 VALUATION CURRENCIES

We noted that the valuation of the respective entities has been performed based on the reporting currencies of the respective entities. Thereafter, for presentation purposes, the resulting valuation of the respective entities (based on their respective reporting currency) have been converted to USD and RM based on the applicable exchange rates as at the Evaluation Date. The applicable exchange rates adopted as summarised in Table 1 below: -

Table 1 – Exchange rate as of the Evaluation Date

Entity	Country of incorporation	Reporting currency	Exchange rate to USD	Exchange rate to RM
AOCs				
IAA	Indonesia	IDR	0.0001	0.0003
PAA	Philippines	PHP	0.0181	0.0828
TAA	Thailand	THB	0.0291	0.1334
Holding companies				
AAAGL	Malaysia	USD	1.0000	4.5875
AAID	Indonesia	IDR	0.0001	0.0003
AAI	Philippines	PHP	0.0181	0.0828
AAV	Thailand	THB	0.0291	0.1334

(Source: Deloitte's Valuation Letter)

As the operations of AAAGL Group involved multiple countries, we opine that: -

(i) the adoption of reporting currency of the respective entities as the primary currency in appraising the range of market value of the respective entities; and

(ii) the ultimate translation into RM based on the exchange rate as of the Evaluation Date for the purpose of determining the valuation for the Proposed AAAGL Acquisition;

is appropriate and reasonable.

6.2 METHOD OF VALUATION

We noted that the following valuation methods have been considered by Deloitte in appraising the valuation range of the respective entities of AAAGL Group: -

	AOCs	Holding Companies
Primary approach	Income approach	Adjusted book value approach
Secondary approach, for cross-checking purposes	Market approach	Not applicable

(i) Income approach – The income approach provides an indication of value by converting future cash flow to a single current value, as defined by the International Valuation Standards ("**IVS**"). The income approach should be applied under the following circumstances:

(a) The income-producing ability of the subject asset is the critical element affecting value; and/or

(b) Reasonable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

In the context of the Proposed AAAGL Acquisition, the income-producing ability of the AOCs (namely, TAA, PAA and IAA) is the critical element affecting their values. As such, we are of the view that the adoption of income approach – discounted cash flows ("**DCF**") method by Deloitte in appraising the valuation range for the AOCs is appropriate and reasonable.

(ii) Market approach – The market approach provides an indication of value by comparing the subject asset with identical or comparable (that is similar) assets for which price information is available, as defined by the IVS. The market approach should be applied under the following circumstances:

(a) The subject asset has recently been sold in a transaction appropriate for consideration under the basis of value;

(b) The subject asset or substantially similar assets are actively publicly traded; and/or

(c) There are frequent and/or recent observable transactions in substantially similar assets.

In the context of the Proposed AAAGL Acquisition, we noted that market approach – guideline public company method ("**GPCM**") has been used as secondary valuation method (for cross-checking purposes only) by Deloitte in appraising the valuation range for the AOCs. The enterprise value ("**BEV**") over earnings before interest, tax, depreciation, amortisation and rental ("**EBITDAR**") ("**BEV/EBITDAR**") multiple of the guideline public companies ("**GPCs**") are considered as key valuation metrics. We are of the view that the adoption of GPCM by Deloitte as the secondary valuation method (for cross-checking purposes only) is appropriate and reasonable, given that there are other similar (although not entirely identical) publicly-traded airline companies available for comparison.

(iii) Adjusted book value approach – The adjusted book value approach measures the net value of an enterprise after its assets and liabilities have been adjusted to its market value as at the valuation date.

In the context of the Proposed AAAGL Acquisition, we noted that: -

(a) The adjusted book value approach has not been applied by Deloitte in appraising the valuation range for the AOCs given that the net assets of the AOCs may not be reflective of their future earning capabilities; and

(b) The adjusted book value approach has been principally applied by Deloitte in appraising the valuation range for the holding companies given that their respective net assets as at the valuation date would be reflective of their market values as holding companies.

We are of the view that the adjusted book value approach adopted by Deloitte in appraising the valuation range for the holding companies is appropriate and reasonable, taking into consideration the following: -

- The AOCs (namely, TAA, PAA and IAA), which constitute the core income-generating entities held by the respective holding companies, have been valued based on the income approach – DCF method;

- The book values of the respective holding companies have been adjusted to reflect the uplift in investment values arising from the difference between the fair values of the AOCs and the current book values of the investment in the AOCs held by the respective holding companies; and

- Other entities held by the respective holding companies are either dormant, or not expected to contribute significantly to the future earnings of AAAGL Group as at the Evaluation Date.

6.3 VALUATION

The valuation of AAAGL Group is subject to the following general basis and assumptions: -

(i) The risks relating to the Proposed AAAGL Acquisition as summarised in Section 5 of this Expert's Report (further details of which as set out in Section 10, Part A of the Circular) will not materialise, or in the unforeseen circumstances should one or more of those risks materialise, there will be no material adverse impact on the financial performance, financial position and operations of AAAGL Group and the New Aviation Group;

(ii) There are no material adverse changes to the book values and fair value of the AAAGL's investments in the AOCs (namely, TAA, PAA and IAA) and the intermediate holding companies (namely, AAV, AAI and AAID) from the Evaluation Date up to the completion date of the Proposed AAAGL Acquisition;

(iii) The time value implications, if any, from the Evaluation Date up to the actual completion date of the Proposed AAAGL Acquisition is not material;

(iv) There will be no material changes in the prevailing legislation, government regulations, inflation rates, interest rates, foreign exchange rates, taxation rates and any other applicable regulatory requirements which will materially and adversely affect the financial performance, financial position and operations of AAAGL Group and the New Aviation Group; and

(v) AAAGL Group will continue as a going concern, and the future financial performance and growth of the AOCs will meet the projected levels without any material adverse change to the requisite capital and cash flows requirements.

We are of the view that these general basis and assumptions are reasonable, as the business operations of the AAAGL Group are expected to continue as a going concern and the financial and cash flows projections are expected to be achieved without any material adverse changes.

6.3.1 Income Approach for the AOCs

We noted that the AOCs considered by Deloitte in appraising the valuation range of AAAGL consist of TAA, PAA and IAA. We further noted that where applicable, Deloitte has referred to FYE 31 December 2019 as a base year in analysing the projections of each AOC, as FYE 31 December 2019 represents the financial performance of the respective AOCs prior to the COVID-19 pandemic.

The key bases and assumptions applied by Deloitte in appraising the valuation range for the AOCs under the income approach – DCF method are summarised below: -

Key bases and assumptions	Commentaries
o An explicit forecast period of 5 years (between FYE 31 December 2024 and FYE 31 December 2028) is applied for TAA, PAA and IAA.	We are of the view that this is appropriate and reasonable, as the explicit forecast period of 5 years would allow the effects arising from the ongoing and anticipated expansion plans of the AOCs to be reflected.
o The cash flows of AOCs are projected to grow in perpetuity after FYE 31 December 2028, using the following terminal year growth rate: - (i) TAA : 1.0% (ii) PAA : 3.0% (iii) IAA : 3.0%	We noted that the terminal year growth rate applied by Deloitte is based on the 20-year long-term inflation rate applicable to the respective countries in which the AOCs operate, sourced from Economist Intelligence Unit. We are of the view that the terminal year growth rate applied by Deloitte for the AOCs, is appropriate and with reasonable basis; taking into consideration that the AOCs are intended to continue as a going concern without any internally-prescribed time limit (namely, in perpetuity) under the New Aviation Group.
o Revenue is expected to grow at the following CAGRs: - (i) TAA : 11.0% (between 2024 and 2028) and 5.0% (between 2019 and 2028) (ii) PAA : 15.0% (between 2024 and 2028) and 11.0% (between 2019 and 2028) (iii) IAA : 21.0% (between 2024 and 2028) and 14.0% (between 2019 and 2028)	We noted that the revenue growth trend is consistent with the overall increasing trend expected for the aviation industry in the long run. We noted that revenue of TAA is estimated to grow at CAGR of 11.0% (between 2024 and 2028) and 5.0% (between 2019 and 2028). We observed that the estimated growth rates are reasonable after taking into consideration: - (a) the CAGR of 5.0%, over a longer time horizon (between 2019 and 2028), is relatively consistent with the overall long-term growth (2023-2043) for the Asia Pacific region (estimated at 5.3%, based on the Global Outlook for Air Transport, June 2024 by IATA); (b) whilst the CAGR of 11.0%, over a shorter time horizon (between 2024 and 2028), is higher than the overall long-term growth (2023-2043) for the Asia Pacific region, it is reasonable after taking into consideration the historical year-on-year growth rates (ranging from 3.3% to 11.1%) achieved by TAA prior to the COVID-19 pandemic between 2015 and 2019; (c) the growth in revenue by TAA is in line with its business plan to increase flight frequency of existing routes and introduce new routes, both of which are expected to be achieved by increasing the fleet size of TAA. The ability of TAA to increase its fleet size is supported by the current order of aircraft from Airbus, where the New Aviation Group collectively have an order of about 400 aircraft from

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Key bases and assumptions	Commentaries
	Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035); and (d) the assumed contribution of passenger revenues (which relate to scheduled passenger flights, chartered flight income and ancillary revenue including insurance charge and baggage fee) and freight services revenue of 99.0% and 1.0% respectively between FYE 31 December 2024 and FYE 31 December 2028 is fair, as it is consistent with the historical trend where passenger revenues accounted for approximately 99.3% of total revenue whilst freight services revenue accounted for 0.7% of the total revenue based on historical financial data in 2019 (being the financial performance prior to the COVID-19 pandemic). We noted that revenue of PAA is estimated to grow at CAGR of 15.0% (between 2024 and 2028) and 11.0% (between 2019 and 2028). We observed that whilst the growth rates are higher than the overall long-term growth (2023-2043) for the Asia Pacific region (estimated at 5.3%, based on the Global Outlook for Air Transport, June 2024 by IATA), the estimated growth rates are reasonable after taking into consideration: - (a) the historical year-on-year growth rates (ranging from 30.4% to 50.1%) achieved by PAA prior to the COVID-19 pandemic between 2015 and 2019; (b) the growth in revenue by PAA is in line with its business plan to increase flight frequency of existing routes and introduce new routes, both of which are expected to be achieved by increasing the fleet size of PAA. The ability of PAA to increase its fleet size is supported by the current order of aircraft from Airbus, where the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035); and (c) the assumed contribution of passenger revenues (which relate to scheduled passenger flights, chartered flight income and ancillary revenue including insurance charge and baggage fee) and freight services revenue of 99.0% and 1.0% respectively between FYE 31 December 2024 and FYE 31 December 2028 is fair, as

Key bases and assumptions	Commentaries
	it is consistent with the historical trend where passenger revenues accounted for approximately 98.7% of total revenue whilst freight services revenue accounted for 1.3% of the total revenue based on historical financial data in 2019 (being the financial performance prior to the COVID-19 pandemic). We noted that revenue of IAA is estimated to grow at CAGR of 21.0% (between 2024 and 2028) and 14.0% (between 2019 and 2028). We observed that whilst the growth rates are higher than the overall long-term growth (2023-2043) for the Asia Pacific region (estimated at 5.3%, based on the Global Outlook for Air Transport, June 2024 by IATA), the estimated growth rates are reasonable after taking into consideration: - (a) the historical year-on-year growth rates (ranging from negative 23.0% to positive 58.5%) achieved by IAA prior to the COVID-19 pandemic between 2015 and 2019; (b) the growth in revenue by IAA is in line with its business plan to increase flight frequency of existing routes and introduce new routes, both of which are expected to be achieved by increasing the fleet size of IAA. The ability of IAA to increase its fleet size is supported by the current order of aircraft from Airbus, where the New Aviation Group collectively have an order of about 400 aircraft from Airbus (mainly secured by AAB, with scheduled delivery commencing from 2024 up until 2035); and (c) the assumed contribution of passenger revenues (which relate to scheduled passenger flights, chartered flight income and ancillary revenue including insurance charge and baggage fee) and freight services revenue of 98.0% and 2.0% respectively between FYE 31 December 2024 and FYE 31 December 2028 is fair, as it is consistent with the historical trend where passenger revenues accounted for approximately 98.7% of total revenue whilst freight services revenue accounted for 1.3% of the total revenue based on historical financial data in 2019 (being the financial performance prior to the COVID-19 pandemic). Notwithstanding that a higher revenue growth rate has been applied for the AOCs (of which the management plans to achieve by offering new

Key bases and assumptions	Commentaries
	routes and increasing the frequency in existing routes served by the AOCs, to be backed by increased fleet size and passenger capacity), a company specific risk premium ("**CSRP**") has been applied and imputed in the discount rate to address the potential uncertainties of the AOCs in achieving the projected numbers. Premised on the above, we are of the view that the revenue growth rates are appropriate and reasonable.
o The operating expenditures include fuel costs, operating leases, maintenance and overhaul expenses, user charges, staff costs and other costs.	We are of the view that the operating expenditures adopted are appropriate and reasonable, as these are consistent with the actual costs incurred by AOCs in previous financial years and assumed to grow in tandem with the revenue growth.
o Others, comprising the following: - • Unutilised tax losses are expected to be utilised and offset against projected earnings before interest and tax ("**EBIT**") between FYE 31 December 2024 to FYE 31 December 2028: - (i) TAA: Unutilised tax losses are expected to be utilised and offset against its projected EBIT between FYE 31 December 2024 to FYE 31 December 2027. Tax expenses have been assumed from FYE 31 December 2028 onwards at Thailand statutory tax rate of 20.0% (ii) PAA : Unutilised tax losses are expected to be utilised and offset against its projected EBIT between FYE 31 December 2024 to FYE 31 December 2025. Tax expenses have been assumed from FYE 31 December 2026 onwards at Philippines statutory tax rate of 25.0% (iii) IAA : Unutilised tax losses are expected to be utilised and offset against its projected EBIT between FYE 31 December 2024 to FYE 31 December 2027. Tax expenses have been assumed from FYE 31 December 2028 onwards at Indonesia statutory tax rate of 22.0%	We noted that the AOCs have unutilised tax losses, which are allowed to be carried forward and offset against future profits generated by the AOCs. This is consistent with the prevailing tax regulations of the individual countries in which the AOCs operate. We further noted that the assumed corporate tax rates are consistent with the prevailing statutory corporate tax rate of the individual countries in which the AOCs operate. We noted that the forecasted capital expenditure is on the basis of replenishing depreciated assets with new assets and not to facilitate expansion of operations and not to facilitate expansion of operations or increased capacity. We further noted that the projected rates fall within the range based on historical trends. The assumed trade receivable turnover days of less than 1 week is reasonable and consistent with the commercial practice of the AOCs, as the transactions for passenger revenues (representing the main revenue contributor to the AOCs) are normally on cash terms. The assumed trade payable turnover days and other working capital requirements are consistent with historical trends. Premised on the above, we are of the view that other key bases and assumptions (comprising taxation, capital expenditure for non-aircraft operating assets and the working capital requirements) adopted by Deloitte is fair and reasonable.

Key bases and assumptions	Commentaries
• Capital expenditure for non-aircraft operating assets is projected to be: - (i) TAA : Approximately 0.2% of its total projected revenue between FYE 31 December 2024 and FYE 31 December 2028 (ii) PAA : Approximately 2.0% of its total projected revenue between FYE 31 December 2024 and FYE 31 December 2028 (iii) IAA : Approximately 1.0% of its total projected revenue between FYE 31 December 2024 and FYE 31 December 2028 • The working capital requirements of the have been assumed as follows: - - Trade receivable turnover days (i) TAA : Less than 1 week (ii) PAA : Less than 1 week (iii) IAA : Less than 1 week - Trade payable turnover days (i) TAA : Between 30 and 45 days (ii) PAA : Between 30 and 70 days (iii) IAA : Between 30 and 45 days - Other working capital requirements are based on historical trends and discussions with management.	
o The discount rates adopted have been developed based on the weighted average cost of capital ("**WACC**"). Amongst others, the WACC are based on the following: - (i) Cost of equity with reference to the respective markets which the AOCs operate in using the international cost of capital approach, which assumes adjustments for country risk factors and inflation differentials from a cost of capital benchmark based on a mature financial market. The US have been applied as a benchmark, and a US equity risk premium of approximately 5.0%, adjusted for country risk and inflation rate differentials ranging from approximately 2.0% to 4.0% have been adopted;	We noted that the WACC adopted for the respective AOCs is higher than the average cost of capital for the airline industry (about 9.1% based on the 2024 estimation by IATA), commensurate with the potential uncertainties of the AOCs in achieving the projected numbers. We noted that the discount rates applied have taken into consideration both commonly-applied parameters and company-specific parameters. In particular, we observed that: - (a) in estimating the commonly-applied parameters (such as the risk-free rate, equity risk premium, industry beta, debt yield rate and capital structure), standard market/industry inputs and measures are being adopted; and (b) the commonly-applied parameters are then adjusted for country-specific parameters

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Key bases and assumptions	Commentaries
(ii) Pre-tax cost of debt ranges from approximately 6.0% to 9.0%; (iii) Debt-to-capital ratio of approximately 30.0%; and (iv) Additional risk premiums, as appropriate, to consider uncertainties and risks attributable to the cash flow projections of the respective AOCs. o The adopted WACC for the respective AOCs are summarised below: - (i) TAA : 12.0% to 14.5% (ii) PAA : 17.0% to 19.0% (iii) IAA : 17.5% to 19.0%	(such as risk premium, country-specific spread for debt yield rate, inflation rate, tax rate) and company-specific parameters (such as size premium and risk premium) to give effect to the differentials amongst the AOCs. We are of the view that the application of country-specific risk premiums is appropriate. Based on the research data published on Professor Damodaran's website, we have applied the following rates in the countries in which the AOCs operate: - (i) TAA : 2.3% (ii) PAA : 2.8% (iii) IAA : 2.8% To compensate for the uncertainties and risks attributable to the financial and cash flows projections of the AOCs such as the achievability of the projected revenue and profit growth as well as successful and timely implementation of the business plans (namely, to increase the flight frequency of existing routes and introduce new routes, both of which to be achieved by increasing the fleet size of the AOCs), we hav applied the following company-specific risk premiums: - (i) TAA : 4% to 6% (ii) PAA : 8% to 10% (iii) IAA : 8% to 10% We noted that the WACC adopted is consistent with the range of discount rates computed by us applying the country-specific risk premiums and company-specific risk premiums indicated above. We further observed that the WACC adopted for the PAA and IAA are higher as compared to TAA, mainly due to a higher CSRP being assigned for PAA and IAA, to compensate for the increased level of uncertainties associated with the higher revenue growth rates forecasted. Premised on the above, we are of the view that the discount rates adopted are appropriate and reasonable.

Premised on the above key bases and assumptions, the 100% equity values of the AOCs (namely, TAA, PAA and IAA) on marketable and control basis appraised by Deloitte under the income approach – DCF method are as follows: -

	Valuation Range					
	TAA		**PAA**		**IAA**	
	Low (THB' mil)	**High (THB' mil)**	**Low (PHP' mil)**	**High (PHP' mil)**	**Low (IDR' bil)**	**High (IDR' bil)**
Business enterprise value ("**BEV**")$^{(1)}$	25,757	31,889	17,020	21,679	3,683	4,345
<u>Adjustment for</u> Net debt	(1,792)	(1,792)	(10,997)	(10,997)	(3,031)	(3,031)
Equity value (reporting currency)	23,966	30,098	6,023	10,683	652	1,314
Equity value (USD' mil)	**697**	**875**	**109**	**193**	**42**	**85**
Equity value (RM' mil)	**3,198**	**4,016**	**499**	**885**	**196**	**394**

<u>Remarks: -</u>

- *"Mil" denotes million(s).*
- *"Bil" denotes billion(s).*
- *Due to rounding, the numbers presented in the table may not add up precisely to the totals provided.*

<u>Note: -</u>

(1) BEV is derived from the DCF, comprising the present value of discrete cash flows over the explicit forecast period of 5 years (between FYE 31 December 2024 and FYE 31 December 2028) and the present value of terminal year value, and after adjusting for excess/deficit in working capital changes.

Based on the cash flow projections made available by the management and the WACC adopted, we have computed the present value of the terminal value for the respective AOCs to be as follows: TAA (Approximately THB 15,000 million – THB 20,000 million); PAA (Approximately PHP 19,000 million – PHP 23,000 million; IAA (Approximately IDR 3,000 billion – IDR 4,000 billion). This is consistent with the respective AOCs' management's plan to grow their operations via increased fleet size and flight frequency, and introduction of new routes across the projection period from FYE 31 December 2024 to FYE 31 December 2028. The operations of the AOCs are expected to achieve a stable state by FYE 31 December 2028, and thereafter grow in perpetuity at a nominal growth rate based on the long-term inflation rates of the countries in which AOCs operate.

<u>Secondary valuation method (for cross-checking purposes)</u>

We noted that the 100% equity values of the AOCs (namely, TAA, PAA and IAA) on marketable and control basis appraised by Deloitte under the income approach – DCF method are cross-checked against the results derived based on market approach – GPCM and the outcomes support the valuation range derived under the income approach – DCF method.

For illustrative purposes only, we have computed the valuation based on market approach – GPCM using the average of market multiples and data from the financial projections furnished by the management, the results as summarised below: -

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	Valuation Range		
	TAA	**PAA**	**IAA**
	(RM' mil)	**(RM' mil)**	**(RM' mil)**
Equity values of AOCs derived based on market approach – GPCM using the average of market multiples	4,750	650	380
Equity values of AOCs derived based on income approach – DCF method by Deloitte	3,198 – 4,016 (Mid-point: 3,607)	499 – 885 (Mid-point: 692)	196 – 394 (Mid-point: 295)

Remark: -
- *"Mil" denotes million(s).*

The mid-point of valuation range derived based on the income approach – DCF method is consistent or lower as compared to the valuation derived based on market approach – GPCM using the average of market multiples. We are of the view that the valuation range derived based on the income approach – DCF method (which is a more appropriate approach to reflect the future earnings capabilities of the AOCs) is justifiable.

6.3.2 Adjusted Book Value Approach for the Holding Companies

We noted that the holding companies being appraised by Deloitte under the adjusted book value approach include the following: -

(i) AAAGL (being the subject company of the Proposed AAAGL Acquisition);

(ii) AAV, being the intermediate holding company of TAA;

(iii) AAI, being the intermediate holding company of PAA; and

(iv) AAID, being the intermediate holding company of IAA.

The following key bases and assumptions are being applied by Deloitte in appraising valuation range for the holding companies under the adjusted book value approach: -

(i) The audited net book value of the respective holding companies as of the valuation date (being 31 December 2023) has been adopted;

(ii) Adjustments to the book value mainly pertain to the fair value upliftment of their investments in subsidiaries and associates based on the market values of the AOCs derived using the income approach – DCF method; and

(iii) The carrying amount of other assets and liabilities have been assumed to approximate their market value.

The 100% equity values of intermediate holding companies (namely AAV, AAI and AAID) derived based on the adjusted book value approach are summarised below: -

	Valuation Range					
	AAV		**AAI**		**AAID**	
	Low (THB' mil)	**High (THB' mil)**	**Low (PHP' mil)**	**High (PHP' mil)**	**Low (IDR' bil)**	**High (IDR' bil)**
Audited book value, as at 31 December 2023[(1)]	17,015	17,015	6,176	6,176	2,567	2,567
Adjustment for Upliftment in fair value of investments[(2)]	7,081	13,213	6,003	10,646	(2,228)	(1,849)
Adjusted book value (reporting currency)	24,095	30,227	12,178	16,822	339	718
Equity value (USD' mil)	**701**	**879**	**220**	**304**	**22**	**47**
Equity value (RM' mil)	**3,215**	**4,034**	**1,008**	**1,393**	**102**	**215**

Remarks: -
- *"Mil" denotes million(s).*
- *"Bil" denotes billion(s).*
- *Due to rounding, the numbers presented in the table may not add up precisely to the totals provided.*

Notes: -

(1) Based on the audited net assets of the respective intermediate holding companies, and after adjustments to reflect the latest plan for internal reorganisation and capitalisation of debts to be completed prior to the Proposed AAAGL Acquisition.

(2) The upliftment in fair value of investments is derived in the following manner: -

	AAV		*AAI*		*AAID*	
	Low (THB' mil)	*High (THB' mil)*	*Low (PHP' mil)*	*High (PHP' mil)*	*Low (IDR' bil)*	*High (IDR' bil)*
Fair value of investment in AOCs, based on the effective equity interest	*[(a)]23,966*	*[(a)]30,098*	*[(b)]6,003*	*[(b)]10,646*	*[(c)]373*	*[(c)]752*
Less: Carrying amount of intermediate holding companies' investments in the AOCs as at 31 December 2023	*(16,885)*	*(16,885)*	*-*	*-*	*(2,601)*	*(2,601)*
Upliftment in fair value of investments	*7,081*	*13,213*	*6,003*	*10,646*	*(2,228)*	*(1,849)*

Notes: -

(a) Calculated based on the valuation range determined using the income approach – DCF method (namely, low-range equity value of THB23,966 million and high-range equity value of THB30,098 million respectively), multiplied by the equity interest of 100.00% held in TAA.

(b) Calculated based on the valuation range determined using the income approach - DCF method (namely, low-range equity value of PHP6,023 million and high-range equity value of PHP10,683 million respectively), multiplied by the equity interest of 99.66% held in PAA.

(c) Calculated based on the valuation range determined using the income approach – DCF method (namely, low-range equity value of IDR652 billion and high-range equity value of IDR1,314 billion respectively), multiplied by the equity interest of 57.25% held in IAA.

Based on the valuation range of the AOCs (namely, TAA, PAA and IAA) and their respective intermediate holding companies (namely, AAV, AAI and AAID) as appraised by Deloitte, the valuation range for AAAGL has been appraised by Deloitte using the adjusted book value approach as illustrated below: -

	Low range (USD' mil)	**High range (USD' mil)**
Audited NA of AAAGL as at 31 December 2023[1][2]	183	183
Adjustments: -		
o Upliftment in fair value of AAAGL's investments[3]	(61)	116
o Capital contribution from Capital A arising from capitalisation of the intercompany debts amongst Capital A, the AAAGL Group and AAB Group	505	505
o Cost of investment incurred for the acquisition of 100% equity interest in AA Com Travel Philippines Inc. from Move Travel Sdn Bhd (formerly known as AirAsia Com Travel Sdn Bhd), a subsidiary of Capital A, which was completed on 25 March 2024	* *(Represents negative USD0.2 mil)*	* *(Represents negative USD0.2 mil)*
Adjusted net assets value of AAAGL	**628**	**805**
Range of valuation (RM' mil)	**2,880**	**3,691**

Notes: -

(1) The audited NA of AAAGL as at 31 December 2023 of USD183 million is at the company level.

(2) For information purposes, the audited total shareholders' deficit of AAAGL as at 31 December 2023 at the group level is RM2,234.00 million (equivalent to approximately USD517.61 million) and after adjusting for the Vendor's Pre-Completion Restructuring, the pro forma total shareholders' deficit of AAAGL Group as at 31 December 2023 is RM970.78 million (equivalent to approximately USD224.93 million*).*

Note: -

** Based on Bank Negara Malaysia's closing middle exchange rate of USD1: RM4.3160 as at the LPD.*

The shareholders' deficit and the effects of the Vendor's Pre-Completion Restructuring have been considered in determining the AAAGL Purchase Consideration. In order to derive the adjusted net assets value / valuation of AAAGL, Deloitte has derived the valuation of its major operating subsidiaries / AOCs using the DCF method. The DCF method, amongst others, incorporates the future cash flows arising from the operating assets and liabilities in the AOCs as at 31 December 2023, whereas non-operating assets and liabilities as at 31 December 2023 are adjusted against the business enterprise values (being the value of the business attributable to all providers of finance) in arriving at the respective equity values (being the value of the business attributable to equity holders) of the AOCs.

A fair value upliftment is subsequently applied to the audited NA of AAAGL as at 31 December 2023, calculated based on: -

(a) the fair value of AAAGL's investment stake in the AOCs; and

(b) the fair value of AAAGL's indirect investment stake in the AOCs, based on the adjusted book value of intermediate holding companies after incorporating the fair value of the AOCs.

The adjusted net assets value / valuation of AAAGL has also included the effects from the Vendor's Pre-Completion Restructuring.

(3) Upliftment in fair value of investments consist of the following: -

	Low range (USD' mil)	***High range (USD' mil)***
o *Upliftment in fair value of investment in IAA, calculated based on the valuation range determined using the income approach – DCF method (namely, low-range equity value of USD42 million and high-range equity value of USD85 million respectively), multiplied by the equity interest of 20.95% held in IAA*	*9*	*18*
o *Upliftment in fair value of investment in AAV, calculated based on the valuation range determined using the adjusted book value approach (namely, low-range equity value of USD701 million and high-range equity value of USD879 million respectively), multiplied by the equity interest of 40.71% held in AAV*	*285*	*358*
o *Upliftment in fair value of investment in AA Com Travel Philippines Inc., calculated based on the valuation range determined using the adjusted book value approach (namely, low-range equity value of USD116 million and high-range equity value of USD166 million).*	*116*	*166*
o *Upliftment in fair value of investment in AAI, calculated based on the valuation range determined using the adjusted book value approach (namely, low-range equity value of USD220 million and high-range equity value of USD304 million), multiplied by equity interest of 40.00% held in AAI*	*88*	*121*
o *Upliftment in fair value of investment in AAID, calculated based on the valuation range determined using the adjusted book value approach (namely, low-range equity value of*	*10*	*22*

	Low range (USD' mil)	***High range (USD' mil)***
USD22 million and high-range equity value of USD47 million), multiplied by equity interest of 46.25% equity interest held in AAID		
o *Cost value of the Investment in convertible bond issued by AAI(1)*	*25*	*25*
Total	*533*	*710*
Less: *Adjusted carrying amount of AAAGL's investments as at 31 December 2023(2)*	*(594)*	*(594)*
Upliftment in fair value of AAAGL's investments	***(61)***	***116***

Notes:-

(1) In May 2013, AAI issued USD25 million redeemable, unsecured convertible bonds to AAAGL. The bonds bear interest of 6% per annum.

(2) The carrying amount of AAAGL's investments as at 31 December 2023 has been adjusted to reflect the novation of perpetual capital securities in IAA held by AAB to AAAGL for a consideration of RM1,090.58 million.

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7. CONCLUSION

We are of the opinion that from the AAAGL Purchase Consideration for the Proposed AAAGL Acquisition is **FAIR** from financial point of view; after taking into consideration the following: -

(i) The rationale for the Proposed AAAGL Acquisition as set out in Section 8.3, Part A of the Circular;

(ii) The overview and outlook of the aviation industry as set out in Section 9.1, Part A of the Circular and prospects of the New Aviation Group as set out in Section 9.2, Part A of the Circular;

(iii) The AAAGL Purchase Consideration, amounting to RM3,000.00 million falls within the range of valuation for the entire AAAGL Equity Interest of between RM2,880.00 million and RM3,691.00 million as at the valuation date of 31 December 2023, based on the valuation undertaken by Deloitte as set out in the Valuation Letter attached in Appendix VI(A) of the Circular; and

(iv) the AAAGL Purchase Consideration (RM3,000.00 million) represents a discount of approximately RM285.50 million or 8.69% to the mid-point of the valuation range for AAAGL (being RM3,285.50 million).

This report is addressed to the Board and is intended only for inclusion in the Circular to the shareholders of AAX. This report is prepared solely for the purposes of expressing our opinion on the fairness of the AAAGL Purchase Consideration for the Proposed AAAGL Acquisition, being part of the Proposals to be considered by the non-interested shareholders of AAX and should not be used or relied upon by any other party for any other purposes.

Our opinion in this report may not be quoted, referred to or otherwise disclosed (in whole or in part) without our prior written consent. This report is not intended to be, and does not constitute our recommendation, on the Proposed AAAGL Acquisition. It is also not intended to be relied upon to address any business concerns or risks pertaining to the Proposed AAAGL Acquisition.

Yours faithfully
For and on behalf of
WYNCORP ADVISORY SDN BHD

WONG YOKE NYEN
Managing Director

MOH JIUN HAUR
Director

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REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

23 September 2024

The Board of Directors
AirAsia X Berhad
Red Q, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur (KLIA)
64000 KLIA
Selangor Darul Ehsan

Dear Sirs,

Report on the compilation of pro forma consolidated statement of financial position included in the Circular to Shareholders of AirAsia X Berhad in relation to the Proposed Issuance of Free Warrants, Proposed Private Placement, Proposed Acquisition of AirAsia Aviation Group Limited, Proposed Acquisition of AirAsia Berhad and Proposed Capital Reduction (the "Proposals")

We have completed our assurance engagement to report on the compilation of the pro forma consolidated statement of financial position of AirAsia X Berhad ("AAX" or the "Company") and its subsidiaries (collectively known as the "Group") prepared by the directors of the Company (the "Directors"). The pro forma consolidated statement of financial position consists of the pro forma consolidated statement of financial position as at 31 December 2023 and related notes as set out in Attachment A.

The applicable criteria on the basis of which the Directors have compiled the pro forma consolidated statement of financial position is in accordance with Chapter 10 of the Main Market Listing Requirements issued by Bursa Malaysia Securities Berhad ("Bursa Malaysia") ("Applicable Criteria") which we have stamped for identification purposes.

The pro forma consolidated statement of financial position has been compiled by the Directors to illustrate the impact of the events or transactions as set out in Note 1 of Attachment A on the Group's financial position as at 31 December 2023, as if those transactions or events had taken place on 31 December 2023. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the financial year ended 31 December 2023, on which audit reports have been published.

The Directors' responsibility for the Pro Forma Consolidated Statement of Financial Position

The Directors are responsible for compiling the Pro Forma Consolidated Statement of Financial Position on the basis of the Applicable Criteria.

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REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Our independence and quality control

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm also applies Malaysia Approved Standard on Quality Management and International Standard on Quality Management 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires that we design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities

Our responsibilities is to express an opinion, as required under Chapter 10 of the Main Market Listing Requirements issued by Bursa Malaysia, about whether the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, by the Directors on the basis of the Applicable Criteria.

We conducted our engagement in accordance with Malaysian Approved Standards on Assurance Engagements and International Standard on Assurance Engagements, ISAE 3420: *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants and International Auditing and Assurance Standards Board. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated Statement of Financial Position on the basis of the Applicable Criteria.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinion on any historical financial information used in compiling the Pro Forma Consolidated Statement of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statement of Financial Position.

The purpose of the Pro Forma Consolidated Statement of Financial Position included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for the purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented.

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REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Our responsibilities (contd.)

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Directors in the compilation of the Pro Forma Consolidated Statement of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Consolidated Statement of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regards to our understanding of the nature of the Group, the event or transaction in respect of which the Pro Forma Consolidated Statement of Financial Position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statement of Financial Position.

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

Opinion

In our opinion, the Pro Forma Consolidated Statement of Financial Position has been compiled, in all material respects, on the basis of the Applicable Criteria as set out in Note 1 and Note 2 of Attachment A.

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REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Emphasis of matter

We draw attention to Pro Forma 2 in Attachment A to the Pro Forma Consolidated Statement of Financial Position, which describes that as at the date of this Reporting Accountants' Report, the Company has not identified any investor or underwriter for the Proposed Private Placement of RM1,000,000,000. The completion of the Share Sale Purchase Agreements between Capital A Berhad and AirAsia Group Berhad (formerly known as AirAsia Aviation Group Sdn Bhd) (subsequently novated to AAX based on a supplemental agreement dated 26 July 2024) as set out in Proforma 3 and Pro Forma 4 in Attachment A to the Pro Forma Consolidated Statement of Financial Position are conditional upon the Company raising RM1,000,000,000 within the financial year ending 31 December 2024.

Due to the significance of the matter, it is in our judgment that the matter is of such importance that it is fundamental to users' understanding of the Pro Forma Consolidated Statement of Financial Position as at 31 December 2023. Our opinion is not modified in respect of this matter.

Other Matters

This report is issued for the sole purpose of complying with Chapter 10 of the Main Market Listing Requirements issued by Bursa Malaysia in connection with the Proposals. Our work had been carried out in accordance with Malaysia Approved Standards on Assurance Engagements, International Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this report is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the Proposals as described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this report in connection with any type of transaction, including the sale of securities other than the Proposals.

Yours faithfully,

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Low Khung Leong
02697/01/2025 J
Chartered Accountant

Kuala Lumpur, Malaysia
23 September 2024

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

AirAsia X Berhad

Notes to the pro forma consolidated statement of financial position as at 31 December 2023

1. Introduction

The pro forma consolidated statement of financial position of AirAsia X Berhad ("AAX" or the "Company") and its subsidiaries (collectively known as the "Group") as at 31 December 2023 ("Pro Forma Consolidated Statement of Financial Position"), for which the Directors are solely responsible, have been prepared for illustration purposes only in accordance with Chapter 10 of the Main Market Listing Requirements issued by Bursa Malaysia for inclusion in the Circular to shareholders of AAX. The pro forma consolidated statement of financial position has considered the effects of the following matters/transactions:

a) Proposed Issuance of Free Warrants

AAX intends to issue free warrants to its existing shareholders on the basis of 1 free warrant for every 2 ordinary shares in AAX ("AAX Shares").

b) Proposed Private Placement

AAX intends to secure additional funding through a proposed private placement amounting to RM1,000,000,000 via an issuance of new AAX Shares.

c) Proposed Acquisition of AirAsia Aviation Group Limited

AAX intends to acquire 100% equity interest in AirAsia Aviation Group Limited ("AAAGL") from Capital A Berhad ("CAB") to be satisfied via the issuance of 2,307,692,307 AAX Shares ("Proposed Acquisition of AAAGL").

d) Proposed Acquisition of AirAsia Berhad

AAX intends to acquire 100% equity interest in AirAsia Berhad ("AAB") from CAB for a cash consideration of RM3,800,000,000 ("Proposed Acquisition of AAB").

e) Proposed Capital Reduction

AAX intends to reduce its issued and paid-up share capital via a proposed capital reduction exercise pursuant to Section 116 of the Companies Act 2016.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

1. Introduction (contd.)

The Proposed Issuance of Free Warrants, Proposed Private Placement, Proposed Acquisition of AAAGL, Proposed Acquisition of AAB and Proposed Capital Reduction are collectively hereby known as the "Proposals".

2. Basis of preparation

The pro forma consolidated statement of financial position as at 31 December 2023 has been compiled based on the audited financial statements of the Group for the financial year ended 31 December 2023 and in a manner consistent with the format of the financial statements and the accounting policies adopted by the Group. The audited financial statements of the Group for the financial year ended 31 December 2023 were prepared in accordance with Malaysia Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

The pro forma consolidated statement of financial position as at 31 December 2023 has been prepared for illustrative purposes to show the effects of the Proposals as described above, with the assumption that these transactions were completed on 31 December 2023. The pro forma consolidated statement of financial position is not necessarily indicative of the financial position that would have been attained had the Proposals actually occurred on that date. Accordingly, such information, because of its nature, may not be reflective of the actual financial position of the Group and does not purport to predict the future financial position of the Group.

The pro forma consolidated statement of financial position as at 31 December 2023 is presented in RM and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The pro forma consolidated statement of financial position as at 31 December 2023 of AAX were adopted and approved by the Board of Directors on 23 September 2024.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma consolidated statement of financial position

	Audited as at 31.12.2023	Adjustment for Proposed Issuance of Free Warrants RM'000	Pro Forma 1 RM'000	Adjustment for Proposed Private Placement RM'000	Pro Forma 2 RM'000	Adjustment for Proposed Acquisition of AAAGL Group RM'000	Pro Forma 3 RM'000	Adjustment for Proposed Acquisition of AAB Group RM'000	Pro Forma 4 RM'000	Adjustment for Proposed Capital Reduction RM'000	Pro Forma 5 RM'000
Non-current assets											
Property, plant and equipment	35,295	-	35,295	-	35,295	819,066	854,361	263,044	1,117,405	-	1,117,405
Right of use assets	1,306,448	-	1,306,448	-	1,306,448	5,398,005	6,704,453	6,768,547	13,473,000	-	13,473,000
Finance lease receivables	-	-	-	-	-	-	-	280,081	280,081	-	280,081
Investment in subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Investment in associates	-	-	-	-	-	-	-	435,760	435,760	-	435,760
Investment securities	-	-	-	-	-	5,770	5,770	132	5,902	-	5,902
Intangible assets	-	-	-	-	-	2,430,841	2,430,841	-	2,430,841	-	2,430,841
Goodwill	-	-	-	-	-	2,408,048	2,408,048	7,682,694	10,090,742	-	10,090,742
Deferred tax assets	601,908	-	601,908	-	601,908	268,225	870,133	734,085	1,604,218	-	1,604,218
Receivables and prepayments	436,266	-	436,266	-	436,266	611,065	1,047,331	3,547,345	4,594,676	-	4,594,676
Amount due from related parties	-	-	-	-	-	-	-	-	-	-	-
Aircraft maintenance reserves	-	-	-	-	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	67,311	67,311	-	67,311	-	67,311
Other non-current financial assets	-	-	-	-	-	-	-	-	-	-	-
Deposits on aircraft purchase	-	-	-	-	-	-	-	617,412	617,412	-	617,412
Amount due from associate	32,641	-	32,641	-	32,641	-	32,641	-	32,641	-	32,641
Amount due from related parties	21,935	-	21,935	-	21,935	(21,935)	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-
	2,434,493	-	2,434,493	-	2,434,493	11,986,396	14,420,889	20,329,100	34,749,989	-	34,749,989
Current assets											
Inventories	6,968	-	6,968	-	6,968	137,473	144,441	18,757	163,198	-	163,198
Receivables and prepayments	224,610	-	224,610	-	224,610	391,966	616,576	721,663	1,338,239	-	1,338,239
Finance lease receivables	-	-	-	-	-	-	-	30,463	30,463	-	30,463
Deposits on aircraft purchase	-	-	-	-	-	-	-	46,345	46,345	-	46,345
Amounts due from associates	-	-	-	-	-	1,638	1,638	(1,638)	-	-	-
Amounts due from related parties	381,848	-	381,848	-	381,848	-	381,848	(381,848)	-	-	-
Amounts due from CAB Group	31,767	-	31,767	-	31,767	29,194	60,961	(60,961)	-	-	-
Deposits, bank and cash balances	57,689	(400)	57,289	970,170	1,027,459	196,969	1,224,428	(137,519)	1,086,909	(320)	1,086,589
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-
Tax recoverable	198	-	198	-	198	3,965	4,163	10,728	14,891	-	14,891
	703,080	(400)	702,680	970,170	1,672,850	761,205	2,434,055	245,990	2,680,045	(320)	2,679,725
Less: Current liabilities											
Trade and other payables	360,232	-	360,232	-	360,232	5,812,454	6,172,686	(2,375,694)	3,796,992	-	3,796,992
Aircraft maintenance provisions and liabilities	57,747	-	57,747	-	57,747	402,436	460,183	876,155	1,336,338	-	1,336,338
Sales in advance	612,296	-	612,296	-	612,296	1,205,688	1,817,984	809,091	2,627,075	-	2,627,075
Amounts due to associates	4,603	-	4,603	-	4,603	5,762	10,365	(1,208)	9,157	-	9,157
Amounts due to related parties	9,394	-	9,394	-	9,394	56,838	66,232	83,484	149,716	-	149,716
Amounts due to CAB Group	32,007	-	32,007	-	32,007	605,795	637,802	(407,134)	230,668	-	230,668
Borrowings	-	-	-	-	-	430,101	430,101	147,024	577,125	-	577,125
Current portion of short term debentures	-	-	-	-		190,800	190,800	-	190,800	-	190,800
Lease liabilities	152,392	-	152,392	-	152,392	1,385,906	1,538,298	3,459,872	4,998,170	-	4,998,170
Provision of taxation	-	-	-	-	-	122,995	122,995	2,473	125,468	-	125,468
Derivative financial instruments	-	-	-	-	-	467	467	-	467	-	467
Other provision	13,000	-	13,000	-	13,000	-	13,000	-	13,000	-	13,000
	1,241,671	-	1,241,671	-	1,241,671	10,219,242	11,460,913	2,594,063	14,054,976	-	14,054,976
Net current (liabilities)/assets	(538,591)	(400)	(538,991)	970,170	431,179	(9,458,037)	(9,026,858)	(2,348,073)	(11,374,931)	(320)	(11,375,251)
Non-current liabilities											
Trade and other payables	-	-	-	-	-	21,372	21,372	802,108	823,480	-	823,480
Sales in advance	55,320	-	55,320	-	55,320	-	55,320	-	55,320	-	55,320
Aircraft maintenance provisions and liabilities	331,774	-	331,774	-	331,774	230,154	561,928	4,808,533	5,370,461	-	5,370,461
Borrowings	-	-	-	-	-	490,007	490,007	1,732,798	2,222,805	-	2,222,805
Non-Current portion of long term debenture	-	-	-	-		359,037	359,037	-	359,037	-	359,037
Lease liabilities	1,359,633	-	1,359,633	-	1,359,633	3,460,779	4,820,412	10,643,598	15,464,010	-	15,464,010
Deferred tax liabilities	-	-	-	-	-	110,346	110,346	-	110,346	-	110,346
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-
Provision for retirement benefits	-	-	-	-	-	199,534	199,534	-	199,534	-	199,534
Other provision	33,000	-	33,000	-	33,000	-	33,000	-	33,000	-	33,000
	1,779,727	-	1,779,727	-	1,779,727	4,871,229	6,650,956	17,987,037	24,637,993	-	24,637,993
	116,175	(400)	115,775	970,170	1,085,945	(2,342,870)	(1,256,925)	(6,010)	(1,262,935)	(320)	(1,263,255)
Capital and reserves											
Share capital	51,029	-	51,029	1,000,000	1,051,029	3,046,154	4,097,183	-	4,097,183	(3,997,183)	100,000
Capital Reserve	-	-	-	-	-	931,700	931,700	-	931,700	425,695	1,357,395
Merger Deficit	-	-	-	-	-	(915,501)	(915,501)	-	(915,501)	-	(915,501)
Reverse acqusition reserve	-	-	-	-	-	-	-	-	-	-	-
Other reserves	-	-	-	-	-	(21,082)	(21,082)	-	(21,082)	-	(21,082)
Foreign exchange reserve	(5,582)	-	(5,582)	-	(5,582)	59,415	53,833	-	53,833	-	53,833
Warrant reserve	-	-	-	-	-	-	-	-	-	-	-
(Accumulated losses)/Retained earnings	70,728	(400)	70,328	(29,830)	40,498	(3,605,656)	(3,565,158)	(6,010)	(3,571,168)	3,571,168	-
Total shareholders' (deficit)/funds	116,175	(400)	115,775	970,170	1,085,945	(504,970)	580,975	(6,010)	574,965	(320)	574,645
Non-controlling interests	-	-	-	-	-	(1,837,900)	(1,837,900)	-	(1,837,900)	-	(1,837,900)
Total equity	116,175	(400)	115,775	970,170	1,085,945	(2,342,870)	(1,256,925)	(6,010)	(1,262,935)	(320)	(1,263,255)

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For identification purpose only.

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 1:

The Pro Forma 1 incorporates the effects of the Proposed Issuance of Free Warrants.

AAX intends to issue free warrants to its existing shareholders on the basis of 1 free warrant for every 2 ordinary AAX Shares held. For illustrative purposes, based on the number of AAX Shares in issue as per the audited financial statements of AAX as at 31 December 2023 of 447,072,803 AAX Shares, AAX will issue 223,536,401 free warrants. The Proposed Issuance of Free Warrants has no material effect on the Pro Forma Consolidated Statement of Financial Position of the Group except for transaction cost of RM400,000 which is charged to the profit or loss immediately.

For illustrative purposes, the Proposed Issuance of Free Warrants has the following effect on the component of the Pro Forma Consolidated Statement of Financial Position:

Total Equity

	RM ('000)
Total equity as per audited financial statement as at 31 December 2023	116,175
Less: Transaction cost	(400)
Pro forma 1 as at 31 December 2023	115,775

Deposit, bank and cash balances

	RM ('000)
Deposit, bank and cash balances as per audited financial statement as at 31 December 2023	57,689
Less: Transaction cost	(400)
Pro forma 1 as at 31 December 2023	57,289

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 2:

Proposed Private Placement

Pro Forma 2 incorporates the effects of Pro Forma 1 and the Proposed Private Placement.

Based on the conditional supplemental share sale and purchase agreement in relation to the Proposed Acquisition of AAAGL and Proposed Acquisition of AAB ("SSSPA") dated 26 July 2024 which replaced the original share sale and purchase agreement in relation to the Proposed Acquisition of AAAGL and Proposed Acquisition of AAB ("SSPA") dated 25 April 2024, the Proposed Acquisition of AAAGL and Proposed Acquisition of AAB are conditional upon AAX raising RM1,000,000,000 via a private placement exercise. For illustration purposes, assuming the Proposed Private Placement is placed at an issue price of RM1.13 per AAX Share (rounded up to the nearest sen and based on a 14.39% discount to the 5-day volume weighted average market price ("VWAP") of AAX's shares up to and including the latest practical date ("LPD") on 30 August 2024 of RM1.32), the number of shares to be issued through the Proposed Private Placement would be 884,955,752 AAX Shares.

AAX is currently in the midst of identifying investors or underwriters for the Proposed Private Placement. However, no investor or underwriter has been identified as at the date of this report.

Any increase or decrease in the share price of AAX Shares of RM1.32 per AAX Share will affect the number of shares to be issued pursuant to the Proposed Private Placement. Therefore, the final number of shares to be issued could be materially different compared to 884,955,752 AAX Shares mentioned above.

For illustrative purposes, the Proposed Private Placement has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position:

Share Capital

	No. of AAX Shares	RM ('000)
Issued and paid-up share capital as at 31 December 2023	447,072,803	51,029
Add: Proposed Private Placement	884,955,752	1,000,000
Proforma 2 as at 31 December 2023	1,332,028,555	1,051,029

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 2 (contd.):

Proposed Private Placement (contd.)

Deposit, bank and cash balances

	RM ('000)
Pro Forma 1 as at 31 December 2023	57,289
Add: Proposed Private Placement	1,000,000
Less: Transaction cost	(29,830)
Proforma 2 as at 31 December 2023	1,027,459

Total Equity

	RM ('000)
Pro forma 1 as at 31 December 2023	115,775
Add: Proposed Private Placement	1,000,000
Less: Transaction cost	(29,830)
Pro forma 2 as at 31 December 2023	1,085,945

The transaction cost in relation to the Proposed Private Placement is estimated at RM29,830,000 which is charged to the profit or loss immediately.

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 3:

Proposed Acquisition of AAAGL

Pro Forma 3 incorporates the effects of Pro Forma 2 and the Proposed Acquisition of AAAGL.

In 2023, AAAGL entered into a new brand sub-licensing agreement with Asia Aviation Public Company Limited ("AAV"), Thailand AirAsia Company Limited ("TAA"), AirAsia Inc ("AAI"), Philippines AirAsia Inc. ("PAA"), PT AirAsia Indonesia TBK ("AAID") and PT Indonesia AirAsia ("IAA") the terms of which enables AAAGL to direct the relevant activities of AAV, TAA, AAI, PAA, AAID and IAA. With the powers provided in the brand sub-license agreement and the existing equity interest held by AAAGL in these entities, AAAGL is able to achieve control over them and AAAGL is exposed to variable returns from its involvement with these entities and has the ability to affect those returns.

Following the execution of the brand sub-licensing agreement on 31 May 2023 and 15 June 2023, these entities have transitioned from associated companies into subsidiaries of AAAGL.

In addition, prior to the Proposed Acquisition of AAAGL, the following proposed transactions have been considered to have taken place in AAAGL as at 31 December 2023:-

a) Assignment of the amount due to AAB by AAI and IAA of RM1,730,000,000 to AAAGL;
b) Novation of perpetual capital securities from AAB to AAAGL for a consideration of RM1,090,577,013;
c) Assignment of the debts due from AAAGL arising from (a) and (b) above of RM2,820,577,013 to CAB; and
d) Waiver by CAB of amount due from AAAGL of RM3,468,577,013. Resulting from this, AAAGL will recognise the waiver by CAB as capital contribution.

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 3 (contd.):

Proposed Acquisition of AAAGL (contd.)

Based on the SSSPA, AAX intends to acquire 100% equity interest in AAAGL from CAB for a purchase consideration to be settled via issuance of 2,307,692,307 new shares in AAX ("Consideration Shares").

The Proposed Acquisition of AAAGL has been accounted for as a reverse acquisition, following the standard outlined in *MFRS 3 Business Combination*. Even though AAX is the legal acquirer, for accounting purposes, AAAGL is considered the acquirer.

Based on the SSPA dated 25 April 2024, the Group intends to acquire 100% equity interest in AAAGL for a purchase consideration of RM3,000,000,000 to be satisfied via the issuance of a fixed number of 2,307,692,307 AAX Shares. At the point of the signing of the SSPA, AAX Shares have been assigned a price of RM1.30 per share (based on 5-day VWAP of AAX share price up to and including the 15 April 2024) giving a total purchase consideration of RM3,000,000,000. Subsequently on 26 July 2024, CAB, AirAsia Group Berhad (formerly known as AirAsia Aviation Group Sdn Bhd ("AAG") and AAX signed a conditional SSSPA whereby AAG novates the acquisition of AAAGL to AAX. All terms and conditions stated in the original SSPA dated 25 April 2024 between CAB and AAG remain consistent with the SSSPA except for the removal of the AAX's proposed internal restructuring in its entirety in relation to the share exchange between AAX and AAG.

There is no assurance that the market price of the AAX Shares will maintain at RM1.30 per share on the completion date of the Proposed Acquisition of AAAGL. In the event the market price of AAX Shares falls below RM1.30 per share on the completion date of the Proposed Acquisition of AAAGL, the fair value of the purchase consideration for the Proposed Acquisition of AAAGL will fall below RM3,000,000,000. Should the market price of AAX Shares increase above RM1.30 per share on the completion date of the Proposed Acquisition of AAAGL, the fair value of the purchase consideration for the Proposed Acquisition of AAAGL will be higher than RM3,000,000,000.

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 3 (contd.):

Proposed Acquisition of AAAGL (contd.)

The market price of the AAX Shares is influenced by, among others, the prevailing market sentiments, the volatility of the equity market, the liquidity of the AAX Shares, the outlook and prospects of the industries in which AAX operates, changes in regulatory requirements or market conditions. In addition, the performance of the Malaysian share market (where the AAX Shares are listed) is dependent on the economic and political conditions in Malaysia as well as external factors such as, among others, the performance of the world bourses and flows of foreign funds.

As such, the actual fair value of the purchase consideration on completion date of the Proposed Acquisition of AAAGL could be materially different from what was originally anticipated as at 25 April 2024.

For the purposes of this Pro Forma Consolidated Statement of Financial Position as at 31 December 2023, the fair value of the purchase consideration for the Proposed Acquisition of AAAGL is calculated based on RM1.32 per share, using the 5-day VWAP of AAX Shares price up to and including the LPD on 30 August 2024 as a proxy. Accordingly, for illustrative purposes, the fair value of the purchase consideration is calculated to be RM3,046,153,845.

As the Proposed Acquisition of AAAGL has been accounted for as a reverse acquisition, the total number of shares in issue and the issued and paid-up share capital will be based on the legal parent (AAX's).

For illustrative purposes, the fair value of the consideration for the acquisition of AAX is derived as follows:

	No of AAX Shares	RM'000
Fair value of AAX Shares based on VWAP of RM1.32 as at LPD	447,072,803	590,136
Proposed Private Placement	884,955,752	970,170
Estimated fair value of AAX	1,332,028,555	1,560,306

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 3 (contd.):

Proposed Acquisition of AAAGL (contd.)

For illustrative purposes, the Proposed Acquisition of AAAGL has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position:

Share capital

	No. of AAX Shares	RM ('000)
Balance of AAX Shares as per Pro Forma 2	1,332,028,555	1,051,029
Add: Consideration Shares to be issued pursuant to the Proposed Acquisition of AAAGL	2,307,692,307	3,046,154
Pro forma 3 as at 31 December 2023	3,639,720,862	4,097,183

Goodwill

	RM'000
Estimated fair value of AAX	1,560,306
Less: Total equity of AAX as per Pro forma 2 as at 31 December 2023	(1,085,945)
Goodwill arising from the deemed acquisition of AAX	474,361
Add: Existing goodwill of AAAGL Group	1,933,687
Pro forma 3 as at 31 December 2023	2,408,048

The calculation of goodwill is contingent upon several factors, including, the share price of AAX on the day of the issuance of AAX Shares, the actual net identifiable assets or liabilities of AAX assumed, and the final purchase price allocation process that will take place within 12 months from the date of completing the Proposed Acquisition of AAAGL. Any changes in these variables will directly affect the reported amount of goodwill and intangible assets. In addition, any adverse changes in the forecasted cash flows used to determine the recoverable amount of goodwill and intangible assets may lead to impairment of the recorded goodwill and intangible assets.

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Chartered Accountants, Kuala Lumpur.
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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 3 (contd.):

Proposed Acquisition of AAAGL (contd.)

For illustrative purposes, the Proposed Acquisition of AAAGL has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position (contd.):

Total Equity

	RM ('000)
Pro forma 2 as at 31 December 2023	1,085,945
Less: Net liabilities of AAAGL (Note 1)	(2,808,681)
Add: Goodwill arising from the deemed acquisition of AAX	474,361
Less: Transaction cost	(8,550)
Pro forma 3 as at 31 December 2023	(1,256,925)

Note 1:

	RM'000
Net liabilities of AAAGL group as per accountants report as at 31 December 2023	(5,187,037)
Add: Net assets adjustment arising from acquisition of AA COM Philippines	356
Adjustments relating to the Proposed Internal Reorganisation (Pro Forma 1):	
Capital contribution from CAB pursuant to Proposed Internal Reorganisation	3,468,577
Elimination of perpetual capital securities	(1,090,577)
Net liabilities of AAAGL group as at 31 December 2023 after incorporating effects of Proposed Internal Reorganisation	(2,808,681)

The transaction cost in relation to the Proposed Acquisition of AAAGL is estimated at RM8,550,000 which is charged to the profit or loss immediately.

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3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 3 (contd.):

Proposed Acquisition of AAAGL (contd.)

For illustrative purposes, the Proposed Acquisition of AAAGL has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position (contd.):

Deposit, bank and cash balances

	RM ('000)
Pro forma 2 as at 31 December 2023	1,027,459
Add: Deposit, bank and cash balances as per AAAGL accountants' report	205,340
Add: Deposit, bank and cash balances of AA COM Philippines	179
Less: Transaction cost	(8,550)
Proforma 3 as at 31 December 2023	1,224,428

The balances outstanding after the Proposal Acquisition of AAAGL between CAB and AAX will be as follows:

	RM'000
Net balance due from AAX to CAB as at Pro forma 2	(240)
Add: Increase in amounts due to CAB and its subsidiaries from AAX and its subsidiaries consequent to the completion of the Proposed Acquisition of AAAGL	(576,601)
Less: Amount due to CAB arising from the Proposed Acquisition of AAAGL	(3,046,154)
Add: Settlement of amount due to CAB via issuance of AAX Shares	3,046,154
Net balance due from AAX to CAB as at Pro forma 3	(576,841)

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Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 4:

Proposed Acquisition of AAB

Pro Forma 4 incorporates the effects of Pro Forma 3 and the Proposed Acquisition of AAB.

Based on the SSPA dated 25 April 2024 (as supplemented by SSSPA dated 26 July 2024), AAX intends to acquire 100% equity interest in AAB from CAB for a cash consideration of RM3,800,000,000.

For illustrative purposes, the Proposed Acquisition of AAB has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position:

Goodwill

	RM ('000)
Purchase consideration for the Proposed Acquisition of AAB	3,800,000
Add: Net liabilities of AAB assumed representing fair value of its identifiable assets and liabilities (Note 1)	3,882,694
Goodwill arising from the Proposed Acquisition of AAB	7,682,694

Note 1:

	RM'000
Net liabilities of AAB group as per accountants report as at 31 December 2023	(1,504,694)
Adjustments relating to the Material Subsequent Events (Pro Forma 1):	
Adjustment relating to Proposed Internal Reorganisation	
Reversal of impairment of perpetual capital securities	1,090,577
Proposed dividend to CAB pursuant to the Proposed Internal Reorganisation	(3,468,577)
Net liabilities of AAB group as at 31 December 2023 after incorporating effects of Proposed Internal Reorganisation	(3,882,694)

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Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 4 (contd.):

Proposed Acquisition of AAB (contd.)

For illustrative purposes, the Proposed Acquisition of AAB has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position (contd.):

For illustrative purposes, the calculation of goodwill is contingent upon several factors, amongst others, the actual net identifiable assets or liabilities of AAB assumed, and the final purchase price allocation exercise that will take place within 12 months from the date of completing the Proposed Acquisition of AAB. Any changes in these variables will directly affect the reported amount of goodwill and intangible assets. In addition, any adverse changes in the forecasted cash flows used to determine the recoverable amount of goodwill and intangible assets may lead to impairment of the recorded goodwill and intangible assets.

Prior to the Proposed Acquisition of AAB, the following proposed transactions have been considered to have taken place in AAB as at 31 December 2023:-

a) Disposal of AAX Shares for a total consideration of RM106,726,000 to CAB;
b) Novation of perpetual capital securities by AAB to AAAGL for a consideration of RM1,090,577,013;
c) Declaration of dividend by AAB from 2023 profits of RM3,468,577,013 to CAB. The declaration of dividend is subject to both lenders' consents and shareholders' approval; and
d) Assignment of debts due from AAAGL to AAB of RM2,820,577,013 to CAB.

AAB will novate RM3,800,000,000 of the amount due from CAB to AAX as part of the Proposed Acquisition of AAB.

Total Equity

	RM ('000)
Pro forma 3 as at 31 December 2023	(1,256,925)
Add: Transaction cost	(6,010)
Pro forma 4 as at 31 December 2023	(1,262,935)

The transaction cost in relation to the Proposed Acquisition of AAB is estimated at RM6,010,000 which is charged to the profit or loss immediately.

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Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 4 (contd.):

Proposed Acquisition of AAB (contd.)

For illustrative purposes, the Proposed Acquisition of AAB has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position (contd.):

Deposit, bank and cash balances

	RM ('000)
Pro forma 3 as at 31 December 2023	1,224,428
Add: Deposit, bank and cash balances of AAB	168,491
Less: Repayment of AAB borrowings*	(300,000)
Less: Transaction cost	(6,010)
Proforma 4 as at 31 December 2023	1,086,909

*** The utilisation of proceeds from Proposed Private Placement for the repayment of AAB's borrowings is presented here after the Proposed acquisition of AAB.**

The balances outstanding after the Proposals between CAB and AAX will be as follows:

	RM'000
Net balance due from AAX to CAB as at Pro forma 3	(576,841)
Add: Increase in amounts due from CAB and its subsidiaries to AAX and its subsidiaries consequent to the completion of the Proposed Acquisition of AAB	4,146,173
Amount due to CAB for the Proposed Acquisition of AAB	(3,800,000)
Balance due from AAX to CAB as at Proforma 4	(230,668)

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 OF AIRASIA X BERHAD AND THE NOTES THEREON

Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 5:

Proposed Capital Reduction

Pro Forma 5 incorporates the effects of Pro Forma 4 and the Proposed Capital Reduction.

AAX intends to reduce its issued and paid-up share capital via the Proposed Capital Reduction pursuant to Section 116 of the Companies Act 2016. The Proposed Capital Reduction is subject to court approval. For illustrative purposes, the Proposed Capital Reduction is presented to show the reduction of share capital to RM100,000,000.

The Proposed Capital Reduction has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position:

Share Capital

	No. of AAX Shares	RM ('000)
Pro forma 4 as at 31 December 2023	3,639,720,862	4,097,183
Less: Proposed Capital Reduction	-	(3,997,183)
Pro forma 5 as at 31 December 2023	3,639,720,862	100,000

Capital Reserve

	RM ('000)
Pro forma 4 as at 31 December 2023	931,700
Less: Adjustment to capital reserve arising from the Proposed Capital Reduction	425,695
Pro forma 5 as at 31 December 2023	1,357,395

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Attachment A

3. Pro forma adjustments to the Pro Forma Consolidated Statement of Financial Position (contd.)

The Pro Forma Consolidated Statement of Financial Position illustrates the effects of the following events or transactions (contd.):

Pro Forma 5 (contd.):

Proposed Capital Reduction (contd.)

The Proposed Capital Reduction has the following effects on the components of the Pro Forma Consolidated Statement of Financial Position (contd.):

Accumulated losses

	RM ('000)
Pro forma 4 as at 31 December 2023	(3,571,168)
Less: Adjustment to accumulated losses arising from the Proposed Capital Reduction	3,571,488
Less: Transaction cost	(320)
Pro forma 5 as at 31 December 2023	-

Deposit, bank and cash balances

	RM ('000)
Pro forma 4 as at 31 December 2023	1,086,909
Less: Transaction cost	(320)
Pro forma 5 as at 31 December 2023	1,086,589

Total Equity

	RM ('000)
Pro forma 4 as at 31 December 2023	(1,262,935)
Less: Transaction cost	(320)
Pro forma 5 as at 31 December 2023	(1,263,255)

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For identification purpose only.

AirAsia Aviation Group Limited

LL03901

(Incorporated in Malaysia)

Accountants' Report for the years ended 31 December 2021, 31 December 2022 and 31 December 2023

LL03901

AirAsia Aviation Group Limited
(Incorporated in Malaysia)

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

Statement by director

We, Tharumalingam A/L Kanagalingam and Tan Sri Jamaludin Bin Ibrahim, being the Directors of AirAsia Aviation Group Limited ("AirAsia Aviation"), do hereby state that, in the opinion of the Directors, the financial statements of the Group and of the Economic Entity set out on pages 6 to 109 are drawn up in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial positions of the Group as at 31 December 2023 and 31 December 2022 and of the Economic Entity as at 31 December 2021 and of their financial performance and cash flows for the years then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 31 July 2024.

Tharumalingam A/L Kanagalingam

Tan Sri Jamaludin Bin Ibrahim

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

The Board of Directors
AirAsia Aviation Group Limited
Level 5(A), Main Office Tower,
Financial Park Labuan Complex,
Jalan Merdeka, 87000
Federal Territory of Labuan

Reporting Accountants' Opinion on the Consolidated Financial Statements of the Group for the financial years ended 31 December 2023 and 31 December 2022 and on the financial statements of the Economic Entity for the financial year ended 31 December 2021 contained in the Accountants' Report of AirAsia Aviation Group Limited

Opinion

We have audited the accompanying financial statements of AirAsia Aviation Group Limited (the "Company") and its subsidiaries (the "Group") which comprise the following:

i) the consolidated statements of financial position as at 31 December 2023 and 31 December 2022 of the Group, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of Group for the years ended 31 December 2023, and 31 December 2022; and

ii) the statement of financial position as at 31 December 2021 of the Economic Entity, statement of comprehensive income, statement of changes in equity and statements of cash flow for the year ended 31 December 2021;

and notes to the financial statements, including a summary of material accounting policy information, as set out on pages 6 to 109. These financial statements have been prepared for purpose of inclusion in the circular to shareholders of AirAsia X Berhad ("AAX") in connection with the proposed sale of the Group to AAX (the "Proposal").

In our opinion, the accompanying financial statements give a true and fair view of the financial position as at 31 December 2023, 31 December 2022 of the Group and as at 31 December 2021 of the Economic Entity and the financial performance and cash flows for each of the financial years ended 31 December 2023, 31 December 2022 and 31 December 2021 in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the paragraph below under the header Reporting Accountants' Responsibilities for the Audit of these financial statements section of our opinion. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

The Board of Directors
AirAsia Aviation Group Limited

Independence and other ethical responsibilities

We are independent of the Group and of the Economic Entity in accordance with the By-Laws (on Professional Ethics, Conduct and Practise) of the Malaysian Institute of Accountants (By-Laws")) and International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code").

Responsibility of the Directors for the financial statements

The Directors of the Group and of the Economic Entity are responsible for the preparation of the financial statements of the Group and of the Economic Entity for the financial years ended 31 December 2023, 31 December 2022 and 31 December 2021 that gives a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors of the Group and of the Economic Entity are also responsible for such internal control as the Directors of the Group and of the Economic Entity determine is necessary to enable the preparation of these financial statements of the Group and of the Economic Entity that is free from material misstatement, whether due to fraud or error.

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

Reporting Accountants' Responsibilities for the Audit of the Economic Entity and Consolidated Financial Statements

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

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

The Board of Directors
AirAsia Aviation Group Limited

Reporting Accountants' Responsibilities for the Audit of the Economic Entity and Consolidated Financial Statements (cont'd.)

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

- Identify and assess the risks of material misstatement of these 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Economic Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Group and of the Economic Entity.

- Conclude on the appropriateness of the Directors of the Group's and of the Economic Entity'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 Group's and the Economic Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our opinion to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our opinion. However, future events or conditions may cause the Group and the Economic Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of these financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

The Board of Directors
AirAsia Aviation Group Limited

Reporting Accountants' Responsibilities for the Audit of the Economic Entity and Consolidated Financial Statements (cont'd.)

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

Restriction on Distribution and Use

This opinion is issued for the sole purpose of inclusion in the circular to shareholders of AirAsia X Berhad in connection with the Proposal and should not be relied on for any other purposes. Accordingly, we will not accept any liability or responsibility to any other party to whom our opinion is shown or into whose hands it may come.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Low Khung Leong
No. 02697/01/2025 J
Chartered Accountant

Kuala Lumpur, Malaysia
31 July 2024

LL03901

AirAsia Aviation Group Limited
(Incorporated in Malaysia)

Statements of comprehensive income

	Note	Group 2023 RM'000	Group 2022 RM'000	Economic Entity 2021 RM'000
Revenue	4	5,630,969	22,245	-
Other income		292,281	39	-
Operating expenses				
- Staff costs	5	(674,381)	(10,954)	(23)
- Depreciation of:				
- Property, plant and equipment	10	(31,432)	(160)	-
- Investment property	11	(727)	-	-
- Right-of-use assets	21	(512,393)	(77)	-
- Impairment loss on:				
- Trade receivables	15	(122,042)	-	-
- Other receivables	15	(3,870)	(822)	-
- Goodwill	11	(160,893)	-	-
- Aircraft fuel expense		(2,375,254)	-	-
- Maintenance and overhaul		(1,365,675)	-	-
- User charges		(932,643)	-	-
- Plant and equipment written off	6	(30,441)	(1)	-
- Other operating expenses		(222,453)	(16,733)	(931)
Operating loss		(508,954)	(6,463)	(954)
Finance income	7(a)	3,000	6,815	6,257
Finance costs	7(b)	(362,790)	(10,270)	-
Net operating (loss)/profit		(868,744)	(9,918)	5,303
Foreign exchange gain/(loss)	7(c)	150,083	5,156	(1,602)
Derivative gain		10,537	-	-
Gain on remeasurement of previously held interest in associate	13	1,547,872	-	-
Share of results of associates		35,237	(297,829)	-
Profit/(loss) before taxation		874,985	(302,591)	3,701
Taxation	8	(6,686)	-	-
Net profit/(loss) for the financial year		868,299	(302,591)	3,701

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

Statements of comprehensive income (cont'd.)

		Group	
	Note	**2023 RM'000**	**2022 RM'000**
Net profit/(loss) for the financial year attributable to:			
- Owners of the parent	1,137,184	(302,591)	3,701
- Non controlling interests	(268,885)	-	-
	868,299	(302,591)	3,701
Other comprehensive gain/(loss):			
Foreign currency translation differences	70,403	(34,587)	1,771
Total comprehensive income/(loss) for the financial year	938,702	(337,178)	5,472
Total comprehensive income attributable to:			
- Owners of the parent	1,207,587	(337,178)	5,472
- Non controlling interests	(268,885)	-	-
	938,702	(337,178)	5,472

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

Statements of financial position

	Note	Group 2023 RM'000	Group 2022 RM'000	Economic Entity 2021 RM'000
Non-current assets				
Plant and equipment	10	818,845	251	-
Right-of-use assets	21	5,398,005	824	-
Investment property	11	67,311	-	-
Intangible assets	12	4,364,528	-	-
Investment in associates	9	-	367,324	-
Investment securities	14	5,770	-	78,672
Receivables and prepayments	15	611,065	-	-
Deferred tax assets	18	268,225	-	-
		11,533,749	368,399	78,672
Current assets				
Inventories	16	137,473	-	-
Receivables and prepayments	15	515,450	100,087	536,904
Cash and bank balances	17	205,340	10,715	166
Tax recoverable		3,965	-	-
		862,228	110,802	537,070
Less: Current liabilities				
Trade and other payables	19	5,500,890	658,456	625,952
Aircraft maintenance provisions and liabilities	20	402,436	-	-
Sales in advance	19	1,205,688	-	-
Borrowings	22	430,101	18,695	-
Current portion of long term debentures	23	190,800	-	-
Lease liabilities	21	2,135,895	264	-
Tax payables		122,995	-	-
Derivative financial instruments		467	-	-
		9,989,272	677,415	625,952
Net current liabilities		(9,127,044)	(566,613)	(88,882)
Non-current liabilities				
Trade and other payables	19	21,372	-	-
Lease liabilities	21	6,183,292	564	-
Aircraft maintenance provisions and liabilities	20	230,154	-	-
Borrowings	22	490,007	151,853	-
Non current portion of long term debentures	23	359,037	-	-
Deferred tax liabilities	18	110,346	-	-
Provision for retirement benefits	24	199,534	-	-
		7,593,742	152,417	-
		(5,187,037)	(350,631)	(10,210)

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

Statements of financial position (cont'd.)

	Note	Group 2023 RM'000	Group 2022 RM'000	Economic Entity 2021 RM'000
Capital and reserves				
Share capital	25	21,652	21,652	21,652
Accumulated losses		(1,326,562)	(326,204)	(19,856)
Reserves	27	(929,094)	(46,079)	(12,006)
Total shareholders' deficit		(2,234,004)	(350,631)	(10,210)
Non controlling interests		(4,050,542)	-	-
Perpetual debt securities	26	1,097,509	-	-
Total deficits		(5,187,037)	(350,631)	(10,210)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

Statements of changes in equity

	Share capital RM'000 (Note 25)	Capital reserve RM'000 (Note 27)	Foreign exchange reserves RM'000	Surplus reserves RM'000 (Note 27)	Merger reserve RM'000	Accumulated losses RM'000	Total RM'000	Non controlling interests RM'000	Perpetual debt securities RM'000 (Note 26)	Total equity RM'000
Group										
At 1 January 2023	21,652	25	(46,593)	489	-	(326,204)	(350,631)	-	-	(350,631)
Total comprehensive loss	-	-	70,403	-	-	1,137,184	1,207,587	(268,885)	-	938,702
Share-based payments	-	3,786	-	-	-	-	3,786	-	-	3,786
Internal reorganisation		8,233	(16,321)		(915,501)	(2,137,542)	(3,061,131)	(3,812,575)	1,097,509	(5,776,197)
Acquisition of subsidiaries	-	(33,615)	-	-	-	-	(33,615)	(128,333)	-	(161,948)
Conversion of debentures	-	-	-	-	-	-	-	159,251	-	159,251
At 31 December 2023	21,652	(21,571)	7,489	489	(915,501)	(1,326,562)	(2,234,004)	(4,050,542)	1,097,509	(5,187,037)

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

Statements of changes in equity (cont'd.)

	Share capital RM'000 (Note 25)	Capital reserve RM'000 (Note 27)	Foreign exchange reserves RM'000	Surplus reserves RM'000 (Note 27)	Accumulated loss RM'000	Total equity RM'000
Group						
At 1 January 2022	21,652	-	(12,006)	-	(19,856)	(10,210)
Total comprehensive loss	-	-	(34,587)	-	(302,591)	(337,178)
Share-based payments	-	18	-	-	-	18
Acquisition of subsidiaries	-	7	-	489	(3,757)	(3,261)
At 31 December 2022	21,652	25	(46,593)	489	(326,204)	(350,631)
Economic Entity						
At 1 January 2021	21,652	-	(13,777)	-	(23,557)	(15,682)
Total comprehensive income	-	-	1,771	-	3,701	5,472
At 31 December 2021	21,652	-	(12,006)	-	(19,856)	(10,210)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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AirAsia Aviation Group Limited
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Statements of cash flows

	Note	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Cash flows from operating activities				
Profit/(loss) before taxation		874,985	(302,591)	3,701
Adjustments for:				
Depreciation of:				
- Plant and equipment	10	31,432	160	-
- Investment property	11	727	-	-
- Right-of-use assets	21	512,393	77	-
- Intangible assets		-	1	-
Impairment loss on:				
- Trade receivables	15	122,042		
- Other receivables	15	3,870	822	-
- Goodwill	12	160,893	1	-
Share of results of associates		(35,237)	297,829	-
Plant and equipment written off	10	30,441	1	-
Amortisation of debentures		-	-	-
Interest income	7(a)	(3,000)	(6,815)	(6,257)
Interest expense	7(b)	362,790	10,270	-
Share-based payments		3,786	-	-
Reversal on impairment of plant and equipment	10	(4,300)	-	-
Gain on remeasurement of previously held interest in associate		(1,547,872)	-	-
Derivative gain		(10,537)		
Aircraft maintenance provision	20	125,725	-	-
Net unrealised foreign exchange (gain)/loss	7(c)	(116,970)	(4,602)	4,950
Operating profit/(loss) before working capital changes		511,168	(4,847)	2,394
Changes in working capital:				
Receivables and prepayments		495,953	175,283	(495,893)
Payables and provisions		500,057	(53,939)	338,886
Inventories		(26,165)	-	-
Cash generated from/ (used in) operations		1,481,013	116,497	(154,613)
Interest paid		(300,658)	(10,259)	-
Retirement benefit plan paid		(4,066)	-	-
Interest received	7(a)	3,000	206	-
Net cash generated from/ (used in) operating activities		1,179,289	106,444	(154,613)

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Statements of cash flows (cont'd.)

	Note	Group 2023 RM'000	Group 2022 RM'000	Economic Entity 2021 RM'000
Cash flows from investing activities				
Acquisition of:				
- subsidiaries net of cash acquired	13	228,400	(3,360)	-
- additional interest in an associate		-	(174,597)	-
- plant and equipment	10	(103,852)	(98)	-
- investment securities		(3,811)	-	-
Additional subscription of shares in an associate		-	(180,232)	-
Proceeds from disposals of:				
- plant and equipment		-	3	-
- an associate		-	140	-
- an investment security	14	-	82,963	-
Net cash used in investing activities		120,737	(275,181)	-
Cash flows from financing activities				
Repayment of:				
- debentures		(252,459)	-	-
- borrowings		(183,499)		
Drawdown during the year for:				
- debentures		160,465	170,288	-
- borrowings		100,291	-	-
Payment of lease liabilities		(957,182)	(83)	-
Net (cash used in)/ generated from financing activities		(1,132,384)	170,205	-
Net (decrease)/increase for the financial year		167,642	1,468	(154,613)
Currency translation differences		1,539	9,081	1,452
Internal reorganisation		25,444	-	-
Cash and cash equivalents at beginning of the financial year		10,715	166	153,327
Cash and cash equivalents at end of the financial year		205,340	10,715	166

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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AirAsia Aviation Group Limited
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Notes to the financial statements
For the financial year ended 31 December 2023

1. General information

AirAsia Aviation Group Limited ("AirAsia Aviation" or "AAAGL") is a private limited liability company, incorporated and domiciled in Malaysia. The immediate holding company is Capital A Berhad ("CAB"), a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. Up to the financial year ended 31 December 2021, AAAGL equity accounted for its interests in associated companies and collectively they are known as the "Economic Entity". The Group (which comprises AAAGL and its subsidiaries) were formed in 2022 when AAAGL acquired certain subsidiaries as detailed in Note 13.

This Accountants' Report comprises the following:

(a) The consolidated statements of financial position as at 31 December 2022 and 2023 of the Group, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flow for the years then ended; and including a summary of material accounting policy information and other explanatory notes to the financial statements.

(b) The statement of financial position as at 31 December 2021 of the Economic Entity, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended;

The Group is principally engaged in investment holding, the provision of air transportation services and provision of marketing support services to the airline operators ("AOCs"). The principal activities of the subsidiaries and associates are disclosed in Note 13 and Note 9 respectively. There were no significant changes in the nature of these activities during the financial years reported in the Accountants' Report.

The address of the registered office and principal place of business of AirAsia Aviation is as follows:

Level 5(A), Main Office Tower,
Financial Park Labuan Complex,
Jalan Merdeka,
87000 Federal Territory of Labuan,
Malaysia.

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2. Material accounting policy information

2.1 Basis of preparation

The financial statements of the Group and of the Economic Entity have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Labuan Companies Act, 1990.

The financial statements of the Group and of the Economic Entity have been prepared under the historical cost convention, except as disclosed in the accounting policies below. The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated. The Group and the Economic Entity adhere to the same accounting policies below unless otherwise stated.

For the financial year ended 31 December 2021, the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows are presented for the Company and equity accounted for its interests in associated companies and collectively they are known as the "Economic Entity".

For the financial year ended 31 December 2022 and 31 December 2023, the consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the financial year ended 31 December 2022 and 31 December 2023 were presented as the "Group" (which comprises AAAGL and its subsidiaries) were formed in 2022 when AAAGL acquired certain subsidiaries as detailed in Note 13.

For the financial year ended 31 December 2023, the Group reported net current liabilities of RM9,127 million and a capital deficiency of RM5,187 million.

These conditions may affect the ability of the Group to meet its financial obligations as and when they fall due. The financial statements have been prepared on a going concern basis, as the immediate holding company, CAB, has agreed to provide financial support to enable the Group to meet its obligations as and when they fall due.

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2. Material accounting policy information (cont'd.)

2.2 Standards, amendments to published standards and interpretations that are effective

The Economic Entity have applied the following amendments for the first time for the financial year beginning on 1 January 2021:

Amendments to MFRS 4 Insurance Contracts (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 7 Financial Instruments Disclosures (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 9 Financial Instruments (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 16 Leases (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 139 Recognition and Measurement (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 16 Leases (Amendments to COVID-19 Related Rent Concessions beyond 30 June 2021)

The Group has applied the following amendments for the first time for the financial year beginning on 1 January 2022:

Amendments to MFRS 116: Property, Plant and Equipment:
- Property, Plant and Equipment - Proceeds before intended use

Amendments to MFRS 137: Onerous Contracts
- Cost of Fulfilling a Contract

Annual Improvements to MFRS Standards 2018-2020
- Amendments to MFRS 1: First-time Adoption of International Financial Reporting Standards
  - Subsidiary of a First-time Adopter
- Amendments to MFRS 9: Financial Instruments
  - Fees in the '10 Percent' Test for Derecognition of Financial Liabilities
- Amendments to MFRS 141: Agriculture
  - Taxation in Fair Value Measurements

Amendments to MFRS 3 Business Combinations: Reference to the Conceptual Framework
Amendments to MFRS 137: Onerous Contracts
- Costs of Fulfilling a Contract

Amendment to MFRS 16: Covid-19-Related Rent Concessions Beyond 30 June 2022 (effective 1 April 2022)

The Group has applied the following amendments for the first time for the financial year beginning on 1 January 2023:

MFRS 101: Disclosure of Accounting Policies (Amendment to MFRS 101 and MFRS Practice Statement 2)
MFRS 108: Definition of Accounting Estimates (Amendment to MFRS 108)

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AirAsia Aviation Group Limited
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2. Material accounting policy information (cont'd.)

2.2 Standards, amendments to published standards and interpretations that are effective (cont'd.)

The Group has applied the following amendments for the first time for the financial year beginning on 1 January 2023: (cont'd.)

MFRS 17: Insurance Contracts - Initial Application of MFRS 17 and MFRS 9 - Comparative Information (Amendment to MFRS 17)
MFRS 112: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to MFRS 112)
MFRS 112: International Tax Reform - Pillar Two Model Rules (Amendment to MFRS 112)

The adoption of these new amendments, standards and interpretations did not have any material effect on the financial performance or position of the Group and of the Economic Entity, except for:

MFRS 101: Disclosure of Accounting Policies (Amendment to MFRS 101 and MFRS Practice Statement 2)

The amendments to MFRS 101 and MFRS Practice Statement 2 provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on Group's and the Economic Entity's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's and the Economic Entity's financial statements.

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2. Material accounting policy information (cont'd.)

2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
MFRS 101: Classification of Liabilities as Current or Non-current (Amendments to MFRS 101)	1 January 2024
MFRS 16: Lease Liability in a Sale and Leaseback (Amendments to MFRS 16)	1 January 2024
MFRS 101: Non-current Liabilities with Covenants (Amendments to MFRS 101)	1 January 2024
MFRS 7 and MFRS 107: Supplier Finance Arrangements (Amendments to MFRS 7 and MFRS 107)	1 January 2024
MFRS 121: Lack of Exchangeability (Amendments to MFRS 121)	1 January 2025
MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)	Deferred

The directors expect that the adoption of the above amendments, standards and interpretations will have no material impact on the financial statements in the period of initial application.

2.4 Basis of consolidation

2.4.1 Subsidiaries

A subsidiary is an entity over which the Group has all the following:

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

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2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation

2.4.1 Subsidiaries

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.2 Business combination

Business combinations performed by the Group are either accounted using the acquisition method as prescribed under MFRS 3 or via "pooling of interest" for business combination under common control.

2.4.2.1 Pooling of interest

Business combination under common control are accounted by pooling of interest method. Accordingly, the consolidated financial statements of the Group is a continuation of the acquired entities and is accounted for as follows:

(a) The results of entities are presented as if the business combination occurred at the business combination date; and

(b) The Group will consolidate the assets and liabilities of the acquired entities at their pre-combination carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of business combination that would otherwise be done under the acquisition method; and

(c) No new goodwill is recognised as a result of common control business combination. The only goodwill that is recognised is the existing goodwill relating to the combining entities. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity as merger reserve or deficit.

The financial information in the consolidated financial statements is not restated for periods prior to the business combination under common control. The Group accounts for the combination prospectively from the date on which it occurred. The effect of the business combination under pooling of interest method is disclosed in Note 13.

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2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.2 Business combination (cont'd.)

2.4.2.2 Internal reorganisation

The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.2 Business combination (cont'd.)

2.4.2.2 Acquisition method (cont'd.)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.4.3 Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.3 Investments in associates (cont'd.)

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net asset of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. Thus, reversals of impairments may effectively include reversal of goodwill impairments. Impairments and reversals are presented within 'Share of profit of an associate' in the statement of profit or loss.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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2. Material accounting policy information (cont'd.)

2.5 Plant and equipment

Plant and equipment except for freehold land are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs also include borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

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

Freehold land is not depreciated. Significant parts of an item of plant and property are depreciated separately over their estimated useful lives in accordance with the principle in MFRS 116 "Property, Plant and Equipment". Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives.

The useful lives for this purpose are as follows:

Building and building improvements	5 - 75 years
Aircraft and aircraft engines	5 - 25 years
Aircraft spare parts	5 and 10 years
Leasehold improvements	5 and 10 years
Motor vehicles	5 years
Computer hardware	5 years
Furniture and fittings and office equipment	5 years

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

Residual values, where applicable, are reviewed annually against prevailing market rates at the balance sheet date for equivalent aged assets and depreciation rates are adjusted accordingly on a prospective basis.

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2. Material accounting policy information (cont'd.)

2.5 Plant and equipment (cont'd.)

At each financial period, the Group assess whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Refer to accounting policy Note 2.8 on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing net proceeds with carrying amounts and are included in the profit or loss.

2.6 Intangible asset

2.6. Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(i) Computer software

Computer software costs recognised as intangible assets are carried at cost and are amortised on a straight line basis over their estimated useful lives of 5 years.

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2. Material accounting policy information (cont'd.)

2.6. Other intangible assets (cont'd.)

(ii) Landing rights

Landing rights relate to traffic rights and landing slots for destinations operated by the Group's airline operating centres and are recorded at cost less any accumulated impairment losses. Landing rights are allocated to CGUs and are not amortised as they are considered to have an indefinite useful life and are tested annually for impairment.

2.7 Investment properties

Investment properties is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and allowance for loss on impairment (if any).

Depreciation of buildings classified as investment properties is calculated by reference to their costs on the straight-line basis over estimated useful lives of 5 to 29 years, and included in determining income. No depreciation is provided on land and buildings under construction.

On disposal of investment properties, the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period when the asset is derecognised.

2.8 Impairment of non-financial assets

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

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

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2. Material accounting policy information (cont'd.)

2.9 Maintenance and overhaul

Owned aircraft

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned aircraft is described in accounting policy Note 2.5 on property, plant and equipment.

Leased aircraft

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

2.10 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

(i) ROU assets

The Group recognises ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets include the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Plant and buildings	3 years
Aircraft and spare engines	2 - 19 years

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2. Material accounting policy information (cont'd.)

2.10 Leases (cont'd.)

Group as a lessee (cont'd.)

(i) ROU assets (cont'd.)

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment in accordance with accounting policy set out in Note 2.8.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Lease modifications that are not accounted for as separate leases are accounted as adjustments to the carrying value of the lease liability with a corresponding impact to the related right-of-use asset.

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2. Material accounting policy information (cont'd.)

2.10 Leases (cont'd.)

Group as a lessee (cont'd.)

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to lease Economics of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

2.11 Inventories

Inventories which comprise consumables used internally for repairs and maintenance are stated at the lower of cost and net realisable value.

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

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

2.12 Financial assets

2.12.1 Classification

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

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2. Material accounting policy information (cont'd.)

2.12 Financial assets (cont'd.)

2.12.1 Classification (cont'd.)

Initial recognition and measurement (cont'd.)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

2.12.2 Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); or
- Financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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2. Material accounting policy information (cont'd.)

2.12 Financial assets (cont'd.)

2.12.2 Subsequent measurement (cont'd.)

Financial assets at fair value through other comprehensive income

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under MFRS 132 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Amortised costs

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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2. Material accounting policy information (cont'd.)

2.12 Financial assets (cont'd.)

2.12.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired;

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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2. Material accounting policy information (cont'd.)

2.12 Financial assets (cont'd.)

2.12.4 Impairment

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Good Credit Rating Agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

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2. Material accounting policy information (cont'd.)

2.12 Financial assets (cont'd.)

2.12.4 Impairment (cont'd.)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.13 Financial liabilities

2.13.1 Classification and measurement

The Group classifies its financial liabilities in the following category: other financial liabilities. Management determines the classification of financial liabilities at initial recognition.

The Group does not hold any financial liabilities carried at fair value through profit or loss (except for derivative financial instruments). See accounting policy Note 2.15 on derivative financial instruments and hedging activities.

Other financial liabilities are non-derivative financial liabilities. Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial liability and subsequently carried at amortised cost using the effective interest method. Changes in the carrying value of these liabilities are recognised in the income statements.

The Group's other financial liabilities comprise payables (including intercompanies and related parties' balances), borrowings and lease liabilities in the statement of financial position. Financial liabilities are classified as current liabilities; except for maturities greater than 12 months after the reporting date, in which case they are classified as non-current liabilities.

Financial liabilities are derecognised when the liability is either discharged, cancelled, expired or has been restructured with substantially different terms.

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2. Material accounting policy information (cont'd.)

2.13 Financial liabilities (cont'd.)

2.13.1 Classification and measurement (cont'd.)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

2.14 Offsetting financial instruments

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

2.15 Derivatives and hedge accounting

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

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2.12. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

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2. Material accounting policy information (cont'd.)

2.15 Derivatives and hedge accounting (cont'd.)

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

(a) There is 'an economic relationship' between the hedged item and the hedging instrument.

(b) The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.

(c) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Designation of a risk component of a hedged item is permitted when it is a separable identifiable component of the item, and the changes in the cash flows or the fair value of the item attributable to changes in the risk component is reliably measured.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income.

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

2. Material accounting policy information (cont'd.)

2.15 Derivatives and hedge accounting (cont'd.)

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

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

2.16 Cash and cash equivalents

For the purpose of the statements of cash flow, cash and cash equivalents comprise cash on hand, bank balances, demand deposits and other short term, highly liquid investments with original maturities of three months or less, less bank overdrafts. Deposits held as pledged securities for banking facilities granted to the Group are not included as cash and cash equivalents.

2.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense in profit or loss.

2. Material accounting policy information (cont'd.)

2.17 Provisions (cont'd.)

Contingent liabilities are not recognised in the statement of financial position but are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised but disclosed in the notes to the financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements.

2.18 Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income.

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

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

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2. Material accounting policy information (cont'd.)

2.19 Current and deferred income tax (cont'd.)

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

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, joint ventures or associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred tax liability is not recognised.

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

2.20 Employee benefits

2.20.1 Short term employee benefits

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

2.20.2 Defined contribution retirement plan

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

2.20.3 Defined benefit plan

The Group operates defined benefit pension plans in Indonesia and Philippines, which require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

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2. Material accounting policy information (cont'd.)

2.20 Employee benefits (cont'd.)

2.20.3 Defined benefit plan (cont'd.)

Remeasurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'staff costs' in the income statements:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Net interest expense or income.

2.20.4 Share-based payments

Employees of the Group receives remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the share options at the date of grant. This cost is recognised in profit or loss, with a corresponding increase in the employee share option reserves over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of share options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised at the beginning and end of the period.

No expense is recognised for share options that do not ultimately vest because market performance and/or service conditions have not been met. The proceeds received net of any directly attributable transaction costs and the employee share option reserve relating to the vested options are transferred to share capital when the share options are exercised.

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2. Material accounting policy information (cont'd.)

2.21 Revenue and other income

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

2.21.1 Schedule flights, charter flights and ancillary services

These revenues relate to scheduled passenger flight and charter flight income and is recorded net of discounts; and includes the related ancillary revenue (including airport and insurance surcharges, administrative fees, baggage fee, assigned seat, cancellation, documentation and other fees, and on-board sale of meals and merchandise). The Group initially recognises ticket sales as 'sales in advance' which is presented as current liabilities in line with MFRS 15. Revenue is recognised when the air transportation service is provided (i.e. recognised at a point in time).

2.21.2 Interest income

Interest income is recognised using the effective interest method.

2.21.3 Contract balances

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

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2. Material accounting policy information (cont'd.)

2.21 Revenue and other income (cont'd.)

2.21.3 Contract balances (cont'd.)

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., upon completion of services rendered to customer).

2.22 Foreign currencies

2.22.1 Functional and presentation currency

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

2.22.2 Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

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2. Material accounting policy information (cont'd.)

2.22 Foreign currencies (cont'd.)

2.22.2 Transactions and balances (cont'd.)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

2.23 Contingent assets and liabilities

The Group does not recognise contingent assets and liabilities other than those arising from business combinations, but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts. A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

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2. Material accounting policy information (cont'd.)

2.23 Contingent assets and liabilities (cont'd.)

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

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

2.24 Maintenance reserve funds

Maintenance reserve funds relate to payments made by the lessee for maintenance activities undertaken during the lease period. The Group will reimburse the lessee for agreed maintenance work done as and when incurred. The Group records the amounts received as maintenance reserve funds. At the expiry of the lease term, excess maintenance reserve is recognised in the profit and loss account.

2.25 Current versus non-current

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

(i) expected to be realised or intended to be sold or consumed in normal operating cycle;
(ii) held primarily for the purpose of trading;
(iii) expected to be realised within twelve months after the reporting period; or
(iv) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

(i) it is expected to be settled in normal operating cycle;
(ii) it is held primarily for the purpose of trading;
(iii) it is due to be settled within twelve months after the reporting period; or
(iv) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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3. Critical accounting estimates and judgments

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have a material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are explained below.

3.1 Impairment assessment of financial assets

The Group applies the MFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all receivables (including intercompanies and related parties' balances).

The Group assesses the credit risk at each reporting date, whether there have been significant increases in credit risk since initial recognition. The impairment provisions for receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates specific to the debtors at the end of each reporting period.

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4. Revenue

	Group 2023 RM'000	2022 RM'000
Passenger flights	4,569,550	-
Ancillary services	1,030,847	-
Aviation and commercial services	26,633	22,094
Other revenue	3,939	151
	5,630,969	22,245

Revenue by reportable geographical segment is as follows:

Thailand	3,302,025	-
Indonesia	1,238,429	-
Philippines	1,042,781	-
China	27,037	22,094
Malaysia	20,697	151
	5,630,969	22,245

Timing of revenue recognition

At a point in time	5,630,969	22,245

Salient terms of the revenue from support services are as follows:

a) Scheduled flights	Normally settled by cash and refunds for airport tax are claimable up to 6 months period of travel date
b) Charter flights	Full upfront payment before the flight.
c) Ancillary services	Normally settled by cash and generally no refunds.
d) Aviation and commercial services:	Credit terms of 14 days from invoice date

There were no material unfulfilled or partially fulfilled performance obligations except for the amount classified as sales in advance as disclosed in Note 19(b).

5. Staff costs

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Salaries, bonus, allowances and other employee benefits	638,020	9,647	20
Defined contribution retirement plan	25,021	1,307	3
Defined benefit plan	11,340	-	-
	674,381	10,954	23

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6. Loss before taxation

The following items have been charged in arriving at loss before taxation:

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Auditors' remuneration	1,677	49	19
Depreciation of:			
- Plant and equipment (Note 10)	31,432	160	-
- Investment property (Note 11)	727	-	-
Amortisation of:			
- Right-of-use assets (Note 21)	512,393	77	-
- Intangible assets (Note 12)	-	1	-
Impairment loss on:			
- Trade receivables (Note 15)	122,042	822	-
- Other receivables (Note 15)	3,870		
- Goodwill (Note 12)	160,893	-	-
Provision of aircraft maintenance during the year (Note 20)	125,725	-	-
Reversal of impairment on:			
- Plant and equipment	(4,300)	-	-
Shared services cost	7,346	92	-
Plant and equipment written off	30,441	1	-

7. Finance income/(costs) and foreign exchange gains/(losses)

(a) Finance income

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Interest income from:			
- deposits	3,000	206	-
- convertible bond issued by an associate	-	6,609	6,257
	3,000	6,815	6,257

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7. Finance income/(costs) and foreign exchange gains/(losses) (cont'd.)

(b) Finance costs

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Interest expense on:			
- bank borrowing (Note 22)	40,968	10,259	-
- debenture (Note 23)	21,065	-	-
- defined benefits plan (Note 24)	3,795	-	-
- lease liabilities (Note 21)	234,830	-	-
Others	62,132	11	-
	362,790	10,270	-

(c) Foreign exchange gains/(loss)

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Realised	33,113	554	3,348
Unrealised	116,970	4,602	(4,950)
	150,083	5,156	(1,602)

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8. Taxation

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Current income tax			
Current year	8,547	-	-
Deferred taxation			
Relating to origination and reversal of temporary difference	(1,861)	-	-
Taxation	6,686	-	-

The principal activity of the Company is that of a Labuan non-trading activity under the Labuan Business Activity Tax Act 1990 ("LBATA").

As disclosed in Note 9(c), the Company entered into a Master Brand Licensing Agreement ("MBLA") with AirAsia Berhad ("AAB"). The MBLA was subsequently novated to Brand AA Sdn Bhd ("BAA"), a subsidiary of Capital A Berhad ("CAB"). The Company also entered into Sub-Brand Licensing Agreements ("SBLA") with the entities mentioned in Note 9(d) during the financial year. The sub brand licensing income is subjected to tax under the Income Tax Act 1967 ("ITA"), while income from other investment holding activities is subjected to tax under LBATA.

Reconciliations of income tax expense applicable to profit/(loss) before taxation at the statutory income tax rate to income tax expense at the effective income tax rate are as follows:

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Profit/(Loss) before taxation	874,985	(302,591)	3,701
Tax calculated at tax rate of 24%* (2022: 3%# ; 2021: 3%#)	209,996	(9,078)	111
Tax effects of:			
- effect of different tax rates in other jurisdictions	30,616	(58)	-
- expenses not deductible for tax purposes	93,182	700	95
- income not subject to tax	(400,207)	(499)	(206)
- associates' results reported net of tax	8,457	8,935	-
- deferred tax assets not recognised	64,642	-	-
	6,686	-	-

* Effective tax rate in Malaysia under ITA

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9. Investment in associates

	Group 2023 RM'000	Group 2022 RM'000	Economic Entity 2021 RM'000
Quoted investments, at cost	-	1,103,269	432,602
Unquoted investments, at cost	-	139,680	161,708
Total share of post-acquisition loss	-	(870,201)	(572,372)
Exchange differences	-	(5,424)	(21,938)
	-	367,324	-
Share of fair value of quoted investment in associates	-	2,039,442	283,906

The fair values of the quoted investment in associates are categorised under Level 1 of the fair value hierarchy.

Unquoted investments include an investment in a convertible bond issued by AirAsia inc ("AA Inc")., an associated company in 2022 and 2021, amounting to RM110.3 million. The convertible bond which was acquired in 2013 is unsecured, convertible at the option of the subscriber to equity shares in AA Inc. or redeemable at par with interest; and bears interest at 6% per annum. Initially, the convertible bond matures in May 2023, however the term of the convertible bond has been renegotiated to 31 October 2024.

(a) Additional investments during the financial year of 2022

(i) In 2020 and 2021, Asia Aviation Public Company Limited ("AAV") holds 55% equity interests in Thai Airasia Company Limited ("TAA") with the Economic Entity holding the balance of the 45% equity interest. As part of AAV Restructuring in 2021, the Economic Entity disposed of its entire shareholdings in TAA to AAV for a cash consideration of RM454,296,000, resulting in TAA becoming a wholly owned subsidiary of AAV. In return, the Economic Entity acquired a 45.12% in AAV for a consideration of RM1,026,619,000. However, the acquisition of shares in AAV was only completed in early 2022. The net cash outflow for the acquisition of AAV shares amounts to approximately RM496,707,275 which was prepaid in 2021.

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9. Investment in associates (cont'd.)

(a) Additional investments during the financial year of 2022

(ii) In 2022, as part of the continuing restructuring plan for AAV and TAA, the Group completed the 45.12% equity interest in AAV. The Group further subscribed to a right issue of 773,473,814 shares of AAV at a price of THB1.75 per share (equivalent to RM174,597,000).

AAV conducted additional rights issue in 2022, which the Group did not participate, leading to a dilution in the Group's equity interest in AAV from 45.12% to 43.00% as at 31 December 2022. As at 31 December 2022, the shares in AAV, which is listed in the Stock Exchange of Thailand with a carrying amount of RM367,324,320 are pledged as securities for borrowings secured (Note 22).

As a result of conversion debentures by the debentures holders, the Group's interest in AAV were further diluted to 40.71% as at 31 December 2023.

(b) Disposal of investments during the financial year of 2022

In 2022, the Economic Entity divested 320,625,000 shares in PT AirAsia Indonesia TBK ("AAID") (representing 3% of AAID's total share capital) to the shareholders of AAID for a total consideration of IDR3,526,875,000 (equivalent to RM998,941) of which IDR455,287,500 (equivalent to RM139,535) was received in cash with the remainder as a receivable.

(c) Liquidation of AirAsia Japan Co. Ltd ("AAJ") in 2023

In 2020, the Economic Entity wrote off its investment in AirAsia Japan Co. Ltd ("AAJ") which was carried at RM403,588,043. AAJ had filed for bankruptcy as a result of unfavourable operating conditions brought about by the COVID-19 pandemic. No further losses were recognised as the share of losses in AAJ has exceeded the Economic Entity's interest in AAJ and the Economic Entity has no further obligation in respect of these losses. The bankruptcy process was subsequently completed in May 2023.

(d) Business combinations during the financial year ended 31 December 2023

On 31 May 2023, AAAGL entered into a Master Brand Licensing Agreement ("MBLA") with AirAsia Berhad ("AAB"). The MBLA subsequently has been novated to Brand AA Sdn Bhd ("Brand AA"), a subsidiary of CAB. On the same date, AAAGL entered into Sub Licensing Agreement ("SBLA") with the airline operators ("AOC") namely Thai AirAsia Company Limited ("TAA") and its parent company, Asia Aviation Public Company Limited ("AAV"). On 15 June 2023, the company entered into SBLA with PT Indonesia AirAsia ("IAA") and Philippines AirAsia Inc ("PAA") as well as their parent companies, PT Indonesia AirAsia TBK ("AAID") and AirAsia Inc. ("AA Inc."), respectively.

9. Investment in associates (cont'd.)

(d) Business combinations during the financial year ended 31 December 2023 (cont'd.)

Effective from signing date of the SBLAs, these entities must comply with the branding and operation requirements and recommendations set by AAAGL under the SBLA. As a result, AAAGL is able to direct the relevant activities of these entities and is exposed to variable returns from its involvement with these entities.

Pursuant to this and in accordance with MFRS 10 Business Combinations, these entities, are deemed as subsidiaries of the AAAGL for accounting consolidation purposes. AAV and AAID are listed in the stock exchanges of Thailand and Indonesia respectively. These entities were regarded as associated companies and the Company has equity accounted for the results and share of net assets of these entities which forms the financial statements of the Economic Entity. The business combinations of these entities are accounted as follows:

Acquisition of TAA and AAV

Due to the SBLA signed between the Company, TAA and AAV, the business combination of TAA and AAV is accounted for as a step-up from associated company to subsidiary using the acquisition method of accounting. TAA and AAV were recognised as associated companies of AAAGL and CAB prior to the signing of the SBLA.

The gain on remeasurement of the previously held interest in TAA and AAV immediately before obtaining control is disclosed in Note 13(i).

Acquisition of IAA, PAA, AAID and AA Inc.

The business combination of IAA, PAA, AAID and AA Inc. (collectively known as the "Entities") is accounted for under the pooling of interest method. The Entities were recognised as associated companies of AAAGL and subsidiaries of CAB prior to the signing of the SBLA. Because these Entities were already regarded as subsidiaries of CAB, the consolidation of these Entities is based on pooling of interest method which is scoped out from the business combination criteria in MFRS 103 as these Entities are under common control.

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9. Investment in associates (cont'd.)

Details of the investment in associates are as follows:

Name of entity	Country of incorporation	Company's effective equity interest 2023 %	2022 %	2021 %	Principal activities
AAID+ ^	Indonesia	-	46.25	49.25	Investment holding
IAA+	Indonesia	-	47.43	49.15	Commercial air transport services
TAA*	Thailand	-	-	45.00	Commercial air transport services
AAV+*	Thailand	-	43.00	-	Commercial air transport services
PAA*f*	Philippines	-	40.00	40.00	Commercial air transport services
AAJ*+	Japan	-	66.90#	66.90#	Under bankruptcy

+ Audited by a member of Ernst & Young Global.
f Audited by a firm other than Ernst & Young.
^ Listed on the Indonesia Stock Exchange.
* Listed on the Thailand Stock Exchange.
# Equity interest of 66.9% comprise both voting and non-voting share in AAJ. AirAsia Aviation held 33% of the voting shares and 67% of the non-voting shares.

There are no contingent liabilities relating to the Group's interest in the associates

All of investment in associates are accounted for using equity method

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9. Investment in associates (cont'd.)

All associates have the same reporting period as the Group and the Economic Entity. For the purpose of applying the equity method of accounting for associates, the last audited financial statements available and the management financial statements as at end of the accounting period of the associate were used.

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

Summarised financial information for associates

Summarised statements of financial position

	AAID Consolidated	
	2022	**2021**
	RM'000	**RM'000**
Non-current assets	1,435,865	1,459,630
Current assets	81,426	48,607
Non-current liabilities	(1,336,243)	(1,094,811)
Current liabilities	(2,111,393)	(1,938,304)

Summarised statements of comprehensive income

	AAID Consolidated	
	2022	**2021**
	RM'000	**RM'000**
Revenue	1,118,899	176,823
Net loss for the financial year	(487,435)	(662,487)
Other comprehensive income/(loss)	7,481	13,248
Total comprehensive loss	(479,953)	(649,239)

Reconciliations of summarised financial information:

	AAID Consolidated	
	2022	**2021**
	RM'000	**RM'000**
Net assets	-	-
Interest in associate	46%	49%
Group's share of net assets, representing carrying value of interest in associate	-	-

The carrying amount of the above interest in investment is nil as the Economic Entity has fully shared the losses of this associate, and has no obligations to share further losses from this investment.

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9. Investment in associates (cont'd.)

Set out below is the summarised financial information for the associate which is accounted for using the equity method: (cont'd.)

Summarised financial information for associates (cont'd.)

Summarised statements of financial position

	AirAsia Inc.	
	2022	**2021**
	RM'000	**RM'000**
Non-current assets	662,541	731,526
Current assets	1,157,890	1,148,336
Non-current liabilities	(873,947)	(706,529)
Current liabilities	(4,717,249)	(4,291,972)

Summarised statements of comprehensive income

	AirAsia Inc.	
	2022	**2021**
	RM'000	**RM'000**
Revenue	787,772	174,529
Net loss for the financial year	(768,968)	(627,783)
Other comprehensive income/(loss)	3,256	17,127
Total comprehensive loss	(765,712)	(610,656)

Reconciliations of summarised financial information:

	AirAsia Inc.	
	2022	**2021**
	RM'000	**RM'000**
Net assets	-	-
Interest in associate	40%	40%
Group's share of net assets, representing carrying value of interest in associate	-	-

The carrying amount of the above interest in investment is nil as the Economic Entity has fully shared the losses of this associate, and has no obligations to share further losses from this investment.

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9. Investment in associates (cont'd.)

Set out below is the summarised financial information for the associate which is accounted for using the equity method: (cont'd.)

Summarised financial information for associates (cont'd.)

Summarised statements of financial position

	AAV Consolidated	
	2022	**2021**
	RM'000	**RM'000**
Non-current assets	7,585,963	-
Current assets	668,177	-
Non-current liabilities	(4,445,470)	-
Current liabilities	(2,793,656)	-

Summarised statements of comprehensive income

	AAV Consolidated	
	2022	**2021**
	RM'000	**RM'000**
Revenue	2,207,657	-
Net loss for the financial year	(1,033,111)	-
Other comprehensive income	29,696	-
Total comprehensive loss	(1,003,415)	-

Reconciliations of summarised financial information:

	AAV Consolidated	
	2022	**2021**
	RM'000	**RM'000**
Net assets	1,015,014	-
Goodwill	(160,771)	-
	854,243	-
Interest in associate	43%	-
Group's share of net assets, representing carrying value of interest in associate	367,324	-

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9. Investment in associates (cont'd.)

Set out below is the summarised financial information for the associate which is accounted for using the equity method: (cont'd.)

Summarised financial information for associates (cont'd.)

Summarised statements of financial position

	TAA	
	2022	**2021**
	RM'000	**RM'000**
Non-current assets	-	5,311,826
Current assets	-	377,449
Non-current liabilities	-	(4,561,557)
Current liabilities	-	(2,497,262)

Summarised statements of comprehensive income

	TAA	
	2022	**2021**
	RM'000	**RM'000**
Revenue	-	508,067
Net loss for the financial year	-	(1,564,048)
Other comprehensive income/(loss)	-	56,590
Total comprehensive loss	-	(1,507,458)

Reconciliations of summarised financial information:

	TAA	
	2022	**2021**
	RM'000	**RM'000**
Net assets	-	-
Interest in associate	-	45%
Group's share of net assets, representing carrying value of interest in associate	-	-

The carrying amount of the above interest in investment for 2021 is nil as the Economic Entity has fully shared the losses of this associate.

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10. Property, plant and equipment

	At 1 January 2023 RM'000	Acquisition of subsidiaries RM'000	Internal reorganisation RM'000	Addition RM'000	Write-off RM'000	Depreciation charge RM'000	Reversal of impairment RM'000	Exchange differences RM'000	At 31 December 2023 RM'000
Group									
Carrying amount									
Aircraft engines, airframes and service potential	-	331,870	12,713	3,366	(12,462)	(11,543)	-	8,661	332,605
Aircraft spares	-	50,511	54,018	24,259	(2,172)	(3,151)	1,736	(21,187)	104,014
Aircraft fixtures and fittings	-	8,990	53,758	59,567	(15,801)	(6,173)	-	(35,774)	64,567
Freehold land	-	86,362	54,304	-	-	-	-	(841)	139,825
Buildings	-	43,036	101,898	156	-	(3,371)	2,533	(6,064)	138,188
Motor vehicles	-	2,309	24	769	-	(1,302)	-	244	2,044
Office equipment, furniture and fittings	251	5,755	4,997	5,949	(6)	(2,046)	-	(2,592)	12,308
Office renovation	-	13,375	1,206	2,549	-	(2,960)	58	1,170	15,398
Operating plant and ground equipment	-	2,170	1,697	2,338	-	(886)	(36) -	494	4,789
In-flight equipment	-	33	42	-	-	-	9 -	33	51
Training equipment	-	4,524	-	-	-	-	- -	763	3,761
Work in progress[1]	-	970	342	4,899	-	-	- -	4,916	1,295
	251	549,905	284,999	103,852	(30,441)	(31,432)	4,300	(62,589)	818,845

[1] Work in progress completed during the financial year were reclassified to respective asset classes.

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10. Property, plant and equipment (cont'd.)

Group (cont'd.)

At 31 December 2023

	Cost RM'000	Accumulated depreciation RM'000	Accumulated impairment loss RM'000	Carrying amount RM'000
Aircraft engines, airframes and service potential	657,605	(325,000)	-	332,605
Aircraft spares	361,874	(254,121)	(3,739)	104,014
Aircraft fixtures and fittings	157,428	(92,861)	-	64,567
Freehold land	139,825	-	-	139,825
Buildings	169,612	(31,424)	-	138,188
Motor vehicles	35,660	(33,616)	-	2,044
Office equipment, furniture and fittings	86,377	(74,069)	-	12,308
Office renovation	72,591	(57,193)	-	15,398
Operating plant and ground equipment	59,833	(55,044)	-	4,789
In-flight equipment	1,842	(1,791)	-	51
Training equipment	6,941	(3,180)	-	3,761
Work in progress	1,295	-	-	1,295
	1,750,883	(928,299)	(3,739)	818,845

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10. Property, plant and equipment (cont'd.)

	1 January 2022 RM'000	Additions RM'000	Acquisition of subsidiaries RM'000	Disposals RM'000	Depreciation charge RM'000	Exchange differences RM'000	31 December 2022 RM'000
Group							
Carrying amount							
Office equipment, furniture and fittings	-	98	323	(4)	(160)	(6)	251

	Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000
At 31 December 2022			
Office equipment, furniture and fittings	839	(588)	251

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10. Property, plant and equipment (cont'd.)

Included in property, plant and equipment of the Group are:

	Group RM'000
Aircraft and engines pledged as security for borrowings	324,651
Freehold land and building pledged as security for borrowings	276,166
Total property, plant and equipment pledged as security for borrowings	600,817

The beneficial ownership and operational control of aircraft pledged as security for borrowings rest with the Group when the aircraft is delivered to the Group.

Where the legal title to the aircraft is held by financiers during delivery, the legal title will be transferred to the Group only upon settlement of the respective facilities.

11. Investment property

	Group 2023 RM'000
At cost	
At 1 January	-
Acquisition of subsidiaries	67,700
Depreciation (Note 6)	(727)
Exchange differences	338
At 31 December	67,311

12. Intangible assets

Group	Landing Right RM'000	Goodwill RM'000	Total RM'000
Cost			
At 1 January 2023	-	-	-
Acquisition of subsidiaries	1,971,900	2,047,200	4,019,100
Internal reorganisation	443,900	38,395	482,295
Exchange difference	15,040	8,986	24,026
At 31 December 2023	2,430,840	2,094,581	4,525,421
Accumulated impairment			
At 1 January 2023	-	-	-
Impairment loss (Note 6)	-	(160,893)	(160,893)
	-	(160,893)	(160,893)
Net carrying amount			
At 31 December 2023	2,430,840	1,933,688	4,364,528

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12. Intangible assets (cont'd.)

Group (cont'd.)	**Computer Software RM'000**	**Total RM'000**
Cost		
At 1 January 2022	-	-
Acquisition of subsidiaries	1	1
At 31 December 2022	1	1
Accumulated depreciation		
At 1 January 2022	-	-
Charge for the year	1	1
At 31 December 2022	1	1
Net carrying amount		
At 31 December 2022	-	-

The goodwill is subject to finalisation of the purchase price allocation ("PPA") exercise.

Landing rights

Landing rights relate to traffic rights and landing slots for destinations operated by IAA, TAA and PAA. As explained in Note 2.6, the useful life of these landing rights is estimated to be indefinite.

Impairment testing for goodwill and landing rights

The carrying amounts of goodwill and landing rights allocated to the Group's cash generating units ("CGUs") are as follows:

	Landing rights RM'000	**Goodwill RM'000**
As at 31 December 2023		
CGU		
IAA/AAID	374,600	38,395
PAA/AA Inc.	69,300	-
TAA/AAV	1,986,940	1,895,293
	2,430,840	1,933,688

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12. Intangible assets (cont'd.)

Impairment testing for goodwill and landing rights (cont'd.)

The recoverable amounts of the CGUs have been measured based on their value in use which is based on calculations using cash flow projections from financial budgets approved by the management covering a five-year period. The discount rates applied to the cash flow projections and the forecasted growth rates used to extrapolate the cash flows beyond the five-year period are as follows:

	Growth rate 2023	Discount rates 2023
CGU		
IAA/AAID	3%	18%
PAA/AA Inc.	3%	18%
TAA/AAV	1%	13%

The calculation of value in use for the CGUs are most sensitive to the following assumptions

Growth rates: The forecasted growth rate is based on published industry research and do not exceed the long term average growth rate for the industries relevant to the CGU

Discount rates: Discount rate reflects management's estimate of the risks specific to this entity. In determining appropriate discount rate, consideration has been given to the applicable weighted average cost of capital.

The recoverable amount of the AOCs is within level 3 of the fair value hierarchy. The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurement:

Description	Unobservable inputs*	Inputs	Relationship of unobservable inputs to fair value
IAA/AAID	Discount rate	18%	Increased discount rate of 1% would decrease the fair value by RM54,000,000
	Long term-growth rate per annum	3%	Decreased long-term growth rate by 1% would decrease the fair value by RM24,000,000
TAA/AAV	Discount rate	13%	Increased discount rate of 1% would decrease the fair value by RM164,000,000
	Long term-growth rate per annum	3%	Decreased long-term growth rate by 1% would decrease the fair value by RM24,000,000

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12. Intangible assets (cont'd.)

Impairment testing for goodwill and landing rights (cont'd.)

Description	Unobservable inputs*	Inputs	Relationship of unobservable inputs to fair value
PAA/AA Inc.	Discount rate	18%	Increased discount rate of 1% would decrease the fair value by RM290,000,000
	Long term-growth rate per annum	3%	Decreased long-term growth rate by 1% would decrease the fair value by RM164,000,000

* There were no significant inter-relationship between unobservable inputs that materially affect the fair value.

Based on the assessments performed, there is no impairment of goodwill landing rights attributable to the CGUs. The management believes that no reasonably possible change in the key assumptions disclosed above used to determine the CGUs' recoverable amounts, including goodwill, would cause its carrying amounts to materially exceed its recoverable amounts.

The calculation of recoverable amounts of the CGUs which have been measured based on their value in use as described above has been made based on conditions existing at 31 December 2023. There is a significant risk that the assumptions on revenue per passenger, load factor, discount rates and growth rate applied in the goodwill impairment assessment would need to be revised, depending on industry developments which may result in a material adjustment to the carrying amounts of the goodwill.

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13. Subsidiaries

(i) Business combinations in 2023

As detailed in Note 9, TAA and AAV became subsidiaries of the Group in 2023. The business combination of TAA and AAV is accounted for as a step-up from associated company to subsidiary using acquisition method.

The net assets recognised in the financial statements for the step-up acquisition of TAA/AAV in 2023 were based on provisional assessment of the fair values while the Group is finalising the purchase price allocation exercise.

The gain on remeasurement of previously held interest in TAA/AAV, are as follows:

	AAV RM'000
Fair value of previously held interest	1,950,433
Less: Carrying amount of previously held interest	(402,561)
Gain on remeasurement of previously held interest	1,547,872

Details of the business combination for TAA/AAV in 2023 are as follows:

	Fair value recognised on step-up acquisition RM'000	**Carrying amount RM'000**
Non-current assets		
Property, plant and equipment	549,905	549,905
Investment property	67,700	67,700
Right of use assets	3,255,200	3,255,200
Intangible assets	1,971,900	3,143,000
Investment securities	2,300	2,300
Derivative assets	95	95
Deferred tax assets	652,400	652,400
Total non-current assets	6,499,500	7,670,600

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13. Subsidiaries

(i) Business combinations in 2023 (cont'd.)

Details of the business combination for TAA/AAV in 2023 are as follows: (cont'd.)

	Fair value recognised on step-up acquisition RM'000	Carrying amount RM'000
Current assets		
Inventories	36,100	36,100
Receivables and prepayments	630,700	630,700
Amounts due from related parties	378,000	378,000
Tax recoverable	32,100	32,100
Derivative assets	100	100
Deposits, bank and cash balances	228,400	228,400
Total current assets	1,305,400	1,305,400
Total assets	7,804,900	8,976,000
Non-current liabilities		
Borrowings	435,400	435,400
Long-term debentures	333,300	333,300
Lease liabilities	3,521,700	3,521,700
Derivative liabilities	11,100	11,100
Provision for retirement benefits	103,300	103,300
Deferred tax liabilities	394,300	394,300
Total non-current liabilities	4,799,100	4,799,100
Current liabilities		
Trade and other payables	1,121,100	1,121,100
Aircraft maintenance provisions	340,400	340,400
Sales in advance	502,600	502,600
Borrowings	198,700	198,700
Current portion of long-term debentures	288,000	288,000
Derivative liabilities	200	200
Lease liabilities	779,900	779,900
Total current liabilities	3,230,900	3,230,900
Total liabilities	8,030,000	8,030,000

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13. Subsidiaries (cont'd.)

(i) Business combinations in 2023 (cont'd.)

Details of the business combination for TAA/AAV in 2023 are as follows: (cont'd.)

	AAV RM'000
Fair value of net identifiable liabilities	(225,100)
Less: Non-controlling interests' share of profit at 57%	128,333
Group's interest in fair value of net identifiable assets	(96,767)
Goodwill on acquisition	2,047,200
Deemed consideration paid by the Group	1,950,433

	AAV RM'000
Analysis of cash flows on acquisition	
Cost of acquisition	-
Less: Cash and cash equivalents of subsidiary acquired	(228,400)
Net cash inflow on deemed acquisition of a subsidiary	(228,400)

From the acquisition date, AAV has contributed RM3,302 million of revenue and RM27 million to the Group's profit net of tax. If the business combination had taken place at the beginning of the year, AAV would have contributed RM5,635 million of revenue and RM61.1 million to the Group's profit net of tax.

(ii) Internal reorganisation in 2023

As detailed in Note 9, IAA, AAID, PAA and AA Inc. became subsidiaries of the Group in 2023 with the signing of the SBLA. The business combination of these Entities are accounted for under the pooling of interest method due to common control, as these Entities were subsidiaries of CAB prior to the signing of the SBLA.

The difference, if any, between the amount recorded as share capital issued and the amount of share capital of the amalgamating company has been transferred to merger reserve and presented separately from other capital reserves.

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13. Subsidiaries (cont'd.)

(ii) Internal reorganisation in 2023 (cont'd.)

Details of the assets and liabilities of the Entities as at 31 May 2023 are as follows:

	Internal reorganisation RM'000
Non-current assets	
Property, plant and equipment	284,999
Right of use assets	1,881,032
Intangible assets	482,294
Receivables and prepayments	170,623
Deferred tax assets	2,913
	2,821,861
Current assets	
Inventories	75,208
Receivables and prepayments	348,739
Amount due from related parties	89,881
Deposits, bank and cash balances	25,445
Tax recoverable	2,749
	542,022
Total assets (A)	3,363,883
Non-current liabilities	
Borrowings	151,410
Aircraft maintenance provision	68,490
Deferred tax liabilities	114,440
Lease liabilities	2,377,708
Provision for retirement benefits	75,551
	2,787,599

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13. Subsidiaries (cont'd.)

(ii) Internal reorganisation in 2023 (cont'd.)

Details of the assets and liabilities of the Entities as at 31 May 2023 are as follows: (cont'd.)

	Internal reorganisation RM'000
Current liabilities	
Trade and other payables	1,504,991
Aircraft maintenance provision	97,975
Sales in advance	645,541
Amounts due to related companies	2,809,398
Borrowings	8,835
Lease liabilities	1,237,504
Provision of taxation	48,237
	6,352,481
Total liabilities (B)	9,140,080
Net liabilities (C) = (A) - (B)	(5,776,197)

Consequently, a merger deficit of RM915,501,000 has been recorded as a result of the internal reorganisation.

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13. Subsidiaries (cont'd.)

(iii) Additional investment during the financial year ended 31 December 2023

In 2023, AAAGL acquired 100% equity interest in AirAsia Aviation Management Services Sdn Bhd ("AMS") from AAB for a consideration amounting to RM300,000 satisfied via the capitalisation of RM300,000 due from AAB, in return for the 300,000 ordinary shares in AMS.

Additionally, AAAGL entered into a joint venture agreement with Sivilia Asia Co. Ltd. ("Sivilia") to form AirAsia Cambodia Co. Ltd. ("CAA"). The Company subscribed for a shareholding of 51%. CAA is set up for the purpose of providing low cost and short haul passenger air transportation and ancillary services on domestic routes in Cambodia and international routes. AAAGL invested USD1,020,000 (equivalent to RM4,651,200) for 1,020,000 ordinary shares of USD 1 per share in CAA.

(iv) Disposal of investment during the financial year ended 31 December 2023

During the financial year ended 31 December 2023, AAAGL disposed of its 100% equity stake in AirAsia Consulting Sdn Bhd ("ACS") to BigPay Holdings Sdn. Bhd., another subsidiary of CAB, for a total consideration amounting to USD0.50 (equivalent to RM2.28).

(v) Business combination in 2022

(a) The Company acquired 1,00,000 ordinary shares, representing 100% equity stake in AirAsia (Guangzhou) Aviation Services Limited Company ("AGZ") from CAB with a total consideration of RM4,405,911.

(b) The Company acquired 1 ordinary share, representing 100% equity stake in AirAsia Consulting Sdn Bhd ("ACS") from CAB with a total consideration of RM2.

(c) The Company acquired 100 ordinary shares, representing 100% equity stake in AirAsia Europe Limited (formerly known as Santan Restaurant Limited) from CAB with a total consideration of RM531.

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13. Subsidiaries (cont'd.)

Details of the investment in subsidiaries are as follows:

Name of entity	Country of incorporation	Group's effective equity interest 2023 %	2022 %	Principal activities
Directly held by the Company				
AirAsia Consulting Sdn. Bhd. ("ACS")	Malaysia	-	100	Providing consulting services
AirAsia Europe Ltd (formerly known as Santan Restaurant Ltd)	United Kingdom	100	100	Food and beverages
AirAsia (Guangzhou) Aviation Service Limited ("AGZ")	China	100	100	Aviation and commercial services
PT AirAsia Indonesia TBK ("AAID")+ ^	Indonesia	46.25	-	Investment holding
Asia Aviation Public Company Limited ("AAV")+*	Thailand	40.71	-	Investment holding
AirAsia Inc ("PAA")f	Philippines	40.0	-	Investment holding
AirAsia Cambodia ("CAA")	Cambodia	51.0	-	Commercial air transport services

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13. Subsidiaries (cont'd.)

Details of the investment in subsidiaries are as follows:

Name of entity	Country of incorporation	Group's effective equity interest 2023 %	2022 %	Principal activities
Held by AAID				
PT Indonesia AirAsia ("IAA")+	Indonesia	47.43	-	Commercial air transport services
Held by IAA				
PT Garda Tawang Reksa Indonesia ("GTRI")f	Indonesia	31.8	-	Provision of airport related services
Held by AAV				
Thai AirAsia Co. Ltd ("TAA")f	Thailand	40.71	-	Commercial air transport services
Held by PAA				
Philippines AirAsia Inc ("PAAI")f	Philippines	39.86	-	Commercial air transport services
Asiawide Airways Incf	Philippines	40.0	-	Dormant

+ Audited by a member of Ernst & Young Global.
f Audited by a firm other than Ernst & Young.
^ Listed on the Indonesia Stock Exchange.
* Listed on the Thailand Stock Exchange.

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13. Subsidiaries (cont'd.)

Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name of entity	Country of incorporation	Effective non-controlling interests 2023 %
AAID	Indonesia	53.75%
PAA	Philippines	60.00%
AAV	Thailand	59.29%

	Group 2023 RM'000
Accumulated balances of material non-controlling interests:	
AAID	(1,567,497)
PAA	(2,528,341)
AAV	47,065
Other individually immaterial subsidiaries	(1,769)
	(4,050,542)
Loss allocated to material non-controlling interests:	
AAID	(163,039)
PAA	(120,224)
AAV	16,147
Other individually immaterial subsidiaries	(1,769)
	(268,885)
Total comprehensive loss allocated to material non-controlling interests:	
AAID	(163,039)
PAA	(120,224)
AAV	16,147
Other individually immaterial subsidiaries	(1,769)
	(268,885)

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13. Subsidiaries (cont'd.)

Material partly-owned subsidiaries (cont'd.)

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before intercompany eliminations.

There were no subsidiaries for the financial year 31 December 2022 and 2021, hence only information pertaining to material partly-owned subsidiaries for the financial year 31 December 2023 is presented below:

Summarised income statements as at 31 December 2023 are as follows:

	AAID RM'000	PAA RM'000	AAV RM'000	Total RM'000
Revenue	1,276,926	1,767,199	5,427,625	8,471,751
Depreciation and amortisation	(146,661)	(184,015)	(492,350)	(823,026)
Interest income	114	15	4,325	4,455
Interest expense	(66,999)	(101,539)	(76,328)	(244,866)
(Loss)/profit before taxation	(303,592)	(200,373)	46,284	(457,681)
Tax credit/(expense)	263	-	(19,050)	(18,787)
Net (loss)/profit for the financial year	(303,329)	(200,373)	27,234	(476,468)
Attributable to non-controlling interests	(163,039)	(120,224)	16,147	(267,116)

Summarised statements of financial position as at 31 December 2023 are as follows:

	AAID RM'000	PAA RM'000	AAV RM'000	Total RM'000
Non-current assets	1,649,556	908,863	8,094,574	10,652,993
Current assets	(107,746)	173,966	1,831,039	1,897,259
Non-current liabilities	(2,247,200)	(3,799,229)	(6,223,938)	(12,270,367)
Current liabilities	(1,689,273)	(1,679,148)	(2,573,670)	(5,942,091)
Net (liabilities)/assets	(2,394,663)	(4,395,548)	1,128,005	(5,662,206)

Summarised cash flow information for the year ended 31 December 2023 are as follows:

	AAID RM'000	PAA RM'000	AAV RM'000	Total RM'000
Operating	118,735	304,225	818,630	332,381
Investing	(6,064)	(12,807)	(121,543)	192,398
Financing	(104,643)	(292,846)	(632,539)	(296,117)
Net increase/(decrease) in cash and cash equivalents	8,028	(1,428)	64,548	228,662

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14. Investment securities

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Unlisted equity securities			
At 31 December	5,770	-	78,672

In 2020, the Economic Entity executed a Share Purchase Agreement ("SPA") with Tata Sons Private Limited to sell a 32.7% equity interest in AirAsia (India) Limited ("AA India"), for a consideration of RM158,257,515 (equivalent to USD37.6 million). The Economic Entity continues to hold the remaining 16.33% in AA India, but no longer exerted significant influence in AA India. Therefore, the remaining equity stake of 16.33% was remeasured to its fair value of RM81,904,575 (equivalent to USD18.83 million) in accordance with MFRS 9 Financial Instruments as an investment securities at fair value through other comprehensive income.

In 2022, the Group sold the remaining 16.33% equity interest in AA India to Air India Limited, an affiliate of Tata Sons Private Limited for a consideration of RM81,904,575 (equivalent to USD18.83 million). No gain or loss arose on the disposal as the Group has already marked the remaining 16.33% in AA India to its fair value.

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15. Receivables and prepayments

	Notes	Group 2023 RM'000	Group 2022 RM'000	Economic Entity 2021 RM'000
Non-current				
Other receivables	(a)	611,065	-	-
Current				
Trade receivables		222,021	-	-
Less: Allowance for impairment	(b)	(122,042)	-	-
		99,979	-	-
Other receivables		142,284	2,176	-
Less: Allowance for impairment	(c)	(3,870)	(822)	-
		138,414	1,354	-
Amount due from holding company		29,194	8,337	14
Amount due from associates		-	65,264	37,062
Amount due from related companies		94,387	25,128	3,121
Deposit	(d)	124,750	-	-
Prepayments	(e)	28,726	4	496,707
		277,057	98,733	536,904
Total current receivables and prepayments		515,450	100,087	536,904

(a) Other receivables of the Group at the reporting date are with a number of external parties for which there is no expectation of default. The other receivables include amount set aside for leased rental security amounting to RM251 million and maintenance reserve fund amounting to RM347 million.

(b) Ageing analysis of trade receivables

The ageing analysis of the Company's trade receivables is as follows:

	Group 2023 RM'000
Current	70,090
1 to 60 days	13,868
61 to 90 days	4,392
91 to 120 days	4,692
Over 120 days	128,979
	151,931
Impaired	(122,042)
	99,979

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15. Receivables and prepayments (cont'd.)

(b) Ageing analysis of trade receivables (cont'd.)

Impairment for trade receivables are recognised based on the simplified approach. Impairment is recognised against trade receivables over their credit period based on estimated amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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

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

	Group 2023 RM'000
At 1 January	-
Internal reorganisation	115,608
Impairment loss (Note 6)	6,434
At 31 December	122,042

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

	Group	
	2023 RM'000	**2022 RM'000**
At 1 January	3,669	-
Impairment loss (Note 6)	201	822
At 31 December	3,870	822

(d) Deposits of the Group at the reporting date are with a number of external parties for which there is no expectation of default. The deposits are mainly relate to operational security deposits which are short term in nature.

(e) Prepayments include advances for purchases of fuel and prepaid engine maintenance to the service provider.

In 2021, prepayments of RM496,707,275 were made towards the acquisition of shares in an associate, as detailed in Note 9(a)(i).

The increase in the other receivables and amounts due from related companies in 2023 is due to the business combinations of the entities mentioned in Note 13.

The amounts due from holding, related, associated companies and related parties are unsecured, interest free and receivable on demand.

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16. Inventories

	Group 2023 RM'000
At cost	
Consumables, in-flight merchandise and others	137,473

During the financial year 2023, the amount of the inventories recognised in operating expenses of the Group was RM144 million.

17. Cash and bank balances

	Group 2023 RM'000	Group 2022 RM'000	Economic Entity 2021 RM'000
Cash and bank balances	205,340	10,715	166

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18. Deferred tax assets/(liabilities)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred taxes relate to the same tax authority.

	Group 2023 RM'000
As at 1 January	-
Acquisition of subsidiaries (Note 13(i))	258,100
Internal reorganisation (Note 13(ii))	(111,527)
Recognised in profit or loss	1,861
Exchange differences	9,445
As at 31 December	157,879

The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

Presented after appropriate offsetting as follows:

	Group 2023 RM'000
Deferred tax assets	268,225
Deferred tax liabilities	(110,346)
	157,879

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18. Deferred tax assets/(liabilities) (cont'd.)

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

Deferred tax assets of the Group:

	Unutilised tax losses RM'000	Provision for retirement benefits RM'000	Others RM'000	Total RM'000
At 1 January 2023	-	-	-	-
Acquisition of subsidiaries	467,873	24,426	160,101	652,400
Internal reorganisation	-	-	2,913	2,913
Recognised in profit or loss	1,434	(10,791)	9,595	238
Exchange difference	19,117	474	(100,197)	(80,606)
At 31 December 2023	488,424	14,109	72,412	574,945

Deferred tax liabilities of the Group:

	Property, plant and equipment RM'000	Fair value on intangible assets RM'000	Total RM'000
At 1 January 2023	-	-	-
Acquisition of subsidiaries	(8,559)	(385,741)	(394,300)
Internal reorganisation	-	(114,440)	(114,440)
Recognised in profit or loss	2,318	(695)	1,623
Exchange difference	(323)	90,374	90,051
At 31 December 2023	(6,564)	(410,502)	(417,066)

Deferred tax has not been recognised for the following items:

	Group 2023 RM'000
Unused tax losses	2,840,344
Other temporary differences	945,060
	3,785,404

The recognised deferred tax assets are able to be utilised against future taxable profits of the subsidiaries. The deferred tax assets in respect of the above items, which have not been recognised, arose from subsidiaries, as it is expected that it will not be utilised against future taxable profits.

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18. Deferred tax assets/(liabilities) (cont'd.)

Estimating the future taxable profits involves significant assumptions, especially in respect of fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on expected future performance and taxable profits which have been adjusted for non-recurring circumstances and a reasonable growth rate.

Pursuant to the relevant tax regulations, the unused tax losses and other temporary differences at the end of the reporting period will expire as follows:

	Group 2023 RM'000
Unutilised business losses can be carried forward until:	
Year of assessment 2026	1,448,253
Year of assessment 2028	1,388,660
Year of assessment 2033	3,431
	2,840,344

19. Trade and other payables and sales in advance

(a) Trade and other payables

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Non-current:			
Other payables	21,372	-	-
Current:			
Trade payables	1,129,656	299	-
Other payables	699,410	9,032	19
Amounts due to holding company	385,852	648,186	618,013
Amounts due to associates	-	160	-
Amount due to related companies	3,046,036	779	7,920
Amounts due to related parties	220,602	-	-
Deposit	19,334	-	-
	5,500,890	658,456	625,952

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19. Trade and other payables and sales in advance (cont'd.)

(a) Trade and other payables (cont'd.)

Trade payables are unsecured, non-interest bearing and are generally on 30 to 60 days term.

The amounts due to holding and related companies, associates and related parties are unsecured, interest free and payable on demand.

(b) Sales in advance

	Group 2023 RM'000
Current	1,205,688

Sales in advance represents the deferred revenue account triggered upon booking by customers. Amount includes ticket fare, seat fees, baggage fees, inflight meals, merchandise, admin fees, service fees and airport fees. Revenue will only be recognised upon flown, specifically upon closing flight status.

20. Aircraft maintenance provisions and liabilities

	Group 2023 RM'000
Aircraft maintenance provisions (i)	367,253
Aircraft maintenance reserve fund (ii)	265,337
	632,590
Disclosed as	
Non-current	230,154
Current	402,436
	632,590

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20. Aircraft maintenance provisions and liabilities (cont'd.)

(i) Aircraft maintenance provisions relate to aircraft held under operating lease arrangements whereby, the Group is contractually obligated to maintain the aircraft during the lease period and to redeliver the aircraft to the lessors at the end of the lease term, in certain pre-agreed conditions. Accordingly, the Group estimates the aircraft maintenance costs required to fulfil these obligations at the end of the lease period and recognise a provision for these costs at each reporting date.

The movements in the aircraft maintenance provisions of the Group during the financial year are as follows:

	Group 2023 RM'000
At 1 January	-
Acquisition of subsidiaries (Note 13(i))	340,400
Internal reorganisation (Note 13(ii))	166,465
Charge for the year (Note 6)	125,725
At 31 December	632,590

(ii) Aircraft maintenance reserve funds relate to the maintenance activities to be undertaken by the Group during the lease period. The Group will accrue the maintenance expenses until the actual expenses incurred.

21. Leases

Group as a lessee

The Group leases various aircraft, spare engines and land and building. Leases of aircraft and spare engines have a lease term of 2 to 19 years whilst land and building generally have a lease term of 2 to 20 years (2022: 2 to 20 years).

The Group also has certain leases of property, plant and equipment with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption for these leases.

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21. Leases (cont'd.)

Group as a lessee (cont'd.)

Set out below are the carrying amounts of ROU recognised and the movements during the year:

Group	Aircraft 2023 RM'000	Plant and buildings 2023 RM'000	Total 2023 RM'000
As at 1 January 2023	-	824	824
Acquisition of subsidiaries (Note 13(i))	3,236,035	19,165	3,255,200
Internal reorganisation (Note 13(ii))	1,881,032	-	1,881,032
Additions	798,664	-	798,664
Modifications	39,995	-	39,995
Depreciation expense (Note 6)	(506,281)	(6,112)	(512,393)
Exchange movements	(67,181)	1,864	(65,317)
As at 31 December 2023	5,382,264	15,741	5,398,005
As at 1 January 2022	-	-	-
Acquisition of subsidiaries	-	919	919
Depreciation expense (Note 6)	-	(77)	(77)
Exchange differences	-	(18)	(18)
As at 31 December 2022	-	824	824

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21. Leases (cont'd.)

Group as a lessee (cont'd.)

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

	Group	
	2023	**2022**
	RM'000	**RM'000**
At 1 January	828	-
Acquisition of subsidiaries	4,301,600	-
Internal reorganisation (Note 13(ii))	3,615,212	-
Additions	705,487	911
Accretion of interest (Note 7(b))	234,830	-
Payments	(957,182)	(83)
Modifications	243,116	-
Exchange movements	175,296	-
At 31 December	8,319,187	828
Current	2,135,895	264
Non-current	6,183,292	564
	8,319,187	828

The maturity analysis of lease liabilities are disclosed in Note 34(c) .

The following are the amounts recognised in profit or loss:

	Group	
	2023	**2022**
	RM'000	**RM'000**
Depreciation of right-of-use assets	512,393	77
Interest expense on lease liabilities	234,830	-
Total amount recognised in profit or loss	747,223	77

The Group had total cash outflows for leases of RM1,214 million (2022: RM0.083 million).

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22. Borrowings

	Group	
	2023	**2022**
	RM'000	**RM'000**
Current		
Term loans	430,101	18,695
Non-current		
Term loans	490,007	151,853
Total borrowings	920,108	170,548

In 2022, the Group obtained a term loan facility amounting to THB1,354,000,000 (equivalent to RM172,615,836). The term loan is secured by shares in AAV as disclosed in Note 9. The Group's borrowings increased in 2023 mainly due to the consolidation of the entities mentioned in Note 13.

As at 31 December 2023, the long-term borrowings are secured by the mortgages of the Group's land and buildings construed thereon, equipment, vehicle and pledges of the Group's aircraft and engines.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Group	
	2023	**2022**
	RM'000	**RM'000**
Balance at 1 January	170,548	-
Internal reorganisation (Note 13(ii))	160,245	-
Drawdown during the year	100,291	162,357
Acquisition of subsidiaries (Note 13(i))	634,100	-
Interest expense (Note 7(b))	40,968	10,259
Repayment of loan	(183,499)	-
Transaction cost	(744)	(2,328)
Exchange differences	(1,801)	260
Balance at 31 December	920,108	170,548

	Group	
	2023	**2022**
	%	**%**
Weighted average interest rate		
Term loans	5.36	9.16

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22. Borrowings (cont'd.)

The borrowings are repayable as follows:

	Group 2023 RM'000	2022 RM'000
Not later than 1 year	430,101	18,695
Later than 1 year and not later than 2 years	490,007	25,174
Later than 2 year and not later than 3 years	-	126,679
	920,108	170,548

Total borrowings as at reporting date consist of the following:

	Group 2023 RM'000	2022 RM'000
Fixed rate borrowings	302,287	-
Floating rate borrowings	617,821	170,548

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23. Long term debentures

As at 31 December 2023, the outstanding balance of long-term debentures are summarised below.

No	Series	Maturity date	No of units (million units)	Par value Baht	Par value MYR	Interest rate %	Term of interest payment	Book value Baht	Book value MYR
1/2022	1	Entirely redeemed on 30 June 2024 (2 years)	1.4	1,000	134	6.80	Quarter	1,431,500	191,955
1/2023	1	Entirely redeemed on 27 April 2025 (2 years)	1.5	1,000	134	7.00	Quarter	1,500,000	201,140
2/2023	1	Entirely redeemed on 28 March 2026 (2.5 years)	1.2	1,000	134	6.90	Quarter	1,200,000	160,912
						Total		4,131,500	554,007
						Less: Deferred debenture issuing costs		(31,098)	(4,170)
						Debenture - net		4,100,402	549,837

23. Debentures (cont'd.)

As at 31 December 2023, the outstanding balance of long-term debentures are summarised below. (cont'd.)

	2023 RM'000
Current portion of long-term debentures	191,411
Less: deferred front-end fee	(611)
Total current portion of long-term debentures - net	190,800
Long-term debentures - net of current portion	362,596
Less: deferred front-end fee	(3,559)
Total non-current portion of long-term debentures - net	359,037
Total long-term debentures	549,837

Long-term debentures are unsubordinated and secured by the Group in THB currency with fixed interest rates. Their fair value as at 31 December 2023 amounted to RM555 million.

The movements of debentures account of the Group during the financial year are summarised below.

	2023 RM'000
At 1 January 2023	-
Acquisition of subsidiaries (Note 13(i))	621,300
Issuance during the period	160,465
Interest expense (Note 7(b))	21,065
Repayment of long-term debentures	(252,459)
Amortisation of front-end fee	(534)
At 31 December 2023	549,837

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24. Provision for retirement benefits

The Group has unfunded, non-contributory and actuarially computed retirement benefit plans which provide retirement benefits to employees who reach the mandatory retirement age under the provisions of labour laws in Indonesia, Philippines and Thailand.

The amounts recognised in the statements of financial position as at 31 December are as follows:

	Group 2023 RM'000
Present value of defined benefit obligation	199,534

The movements in the present value of defined benefit obligation for the year ended 31 December are as follows:

	Group 2023 RM'000
Defined benefit obligation at 1 January	-
Acquisition of subsidiaries (Note 13(i))	103,300
Internal reorganisation	75,551
Recognised in income statement:	
- Current service cost	11,340
- Interest cost (Note 7)	3,795
Benefits paid	(4,066)
Past service cost	2
Remeasurement gain recognised in profit or loss:	
- Changes in financial assumptions	34
- Experience adjustments	(5,473)
Remeasurement gain recognised in other comprehensive income:	
- Changes in financial assumptions	7,537
- Experience adjustments	1,651
Exchange differences	5,863
Defined benefit obligation at 31 December	199,534

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24. Provision for retirement benefits (cont'd.)

The principal actuarial assumptions used for the year ended 31 December are as follows:

	Group 2023
Discount rate	2.49% - 7.49%
Salary increase rate per annum	5%
Average employee service life	5 - 25 years

Sensitivity analysis

As at 31 December, the sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption RM'000**	**Decrease in assumption RM'000**
<u>2023</u>			
Annual discount rate	+/- 1%	(63,194)	74,082
Future annual salary increase rate	+/- 1%	72,217	(61,659)

25. Share capital

	Group		**Economic Entity**
	2023 RM'000	**2022 RM'000**	**2021 RM'000**
Issued and fully paid up:			
As at 1 January/31 December	21,652	21,652	21,652

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

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26. Perpetual debt securities

	Group 2023 RM'000
As at 1 January	-
Internal reorganisation	1,097,509
As at 31 December	1,097,509

AAID issued a perpetual debt securities ("PERS") which was fully subscribed by AAB, a subsidiary of CAB. The PERPS bear interest ("Distribution") on its outstanding principal amount and AAID may pay such Distribution semi-annually at 2% per annum for the 12 months effective from the date of signing of the Perpetual Capital Security Purchase Agreement ("Agreement"), and ranging between 8% -12% per annum thereafter ("Distribution rate") until the seventh anniversary of the issuance of the perpetual securities ("First call date").

At each subsequent period after the First call date, the prevailing interest rate is the distribution rate plus step-up margin of 5%. AAID may, at its sole and absolute discretion, elect to defer, in whole or in part, payment of any distribution, unless a compulsory Distribution payment event has occurred.

However, the occurrence of such compulsory Distribution payment event is at the sole discretion of AAID. Following a deferral, arrears of Distributions are cumulative. The PERPS are unsecured and have no fixed redemption date, therefore AAID is not obliged to redeem the principal amount but would have the right, at its own and sole discretion, to redeem in whole or in part, on the First call date or any following Distribution payment date.

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27. Reserves

27.1 Share option reserves

The share option reserves is used to recognise the value of equity-settled share based payments provided to selected eligible employees and directors of the Group, as part of their remuneration.

The share option reserves relates to ESOS granted by the holding company to certain eligible employees of the Company and its subsidiaries. Refer to Note 28 for further details of this plan.

Share option movements are as follow:

	Group	
	2023	**2022**
	RM'000	**RM'000**
At 1 January	25	-
Share-based payment expenses	3,786	18
Internal reorganisation	8,233	-
Deemed investment in subsidiaries	(33,615)	7
At 31 December	(21,571)	25

27.2 Surplus reserves

The surplus reserves arises from a subsidiary's post-tax profits for the financial year, where 10% of the distribution is placed as a surplus reserve. The surplus reserve is maintained to cover the future losses of the subsidiary and may not be used for distribution to the Company unless the subsidiary is liquidated. The subsidiary may discontinue the contribution when the aggregate sum of the surplus reserve is more than 50% of its registered capital of the subsidiary.

27.3 Translation reserve

This reserve represents the foreign currency translation differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

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28. Share based payments

Long Term Incentive Scheme ("LTIS")

On 2 August 2021, the Parent company, Capital A Berhad (formerly known as AirAsia Group Berhad) implemented a LTIS comprising an Employee Share Option Scheme ("ESOS") and a Share Grant Scheme. The establishment of the LTIS, which involves up to 10% of the total number of issued shares of the holding company at any point in time throughout the duration of the LTIS, is for the employees and directors of the Company who are eligible in accordance with the By-Laws governing the LTIS. The LTIS is administered by a committee appointed and duly authorised by the Board in accordance with the By-Laws.

The LTIS will be in force for a period of six (6) years commencing from 2 August 2021 and may be extended for a further period of up to 4 years immediately from the expiry of the first six years.

ESOS

On 3 August 2021, the holding company granted 159,400,000 share options ("ESOS") pursuant to the LTIS to selected eligible employees and directors of the Group. The ESOS will be vested on a 3 year-cliff vesting, i.e. 100% will be vested on 31 August 2024, subject to the holding company's share price performance. Employees must remain in service for a period of 3 years from the date of grant up to vesting date. The fair value of the ESOS is estimated at the date of grant using a Monte-Carlo simulation model blended with Black-Scholes model, taking into account the terms and conditions on which the ESOS were granted. The model simulates the share price and takes into account historical and expected dividends, risk-free rate, and the share price volatility of the holding company so as to predict the share performance.

The exercise price of the ESOS is RM0.74 which is equal to the 5-day Volume-weighted average market price ("VWAP") of the shares immediately preceding the date of the ESOS award, with a discount of not more than ten per cent (10%). The vesting period and exercise period of the ESOS will be limited to the duration that the LTIS is in force. There is no cash settlement alternatives for the employees. The Company does not have a past practice of cash settlement for these awards.

There were no cancellations or modifications to the award in 2023.

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28. Share based payments (cont'd.)

ESOS (cont'd.)

Movements during the year

The following table illustrates the number of, and movements in, ESOS of the Group:

	Group	
	2023	**2022**
	'000	**'000**
Outstanding at 1 January	200	-
Granted during the year	16,400	200
Outstanding at 31 December	16,600	200

The fair value of options granted during the year was RM0.282.

The exercise price for ESOS outstanding at the end of the year was RM0.7425.

The following table list the inputs to the model used for the ESOS:

	Share options granted on 3 Aug 2021
Fair value at the measurement date (RM)	0.282
Expected volatility (%)	53.874
Risk-free interest rate per annum (%)	2.242
Expected life of ESOS (years)	6
Model used	Monte-Carlo blended with Black-Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

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29. Significant related party transactions

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

Entities listed under investment in subsidiaries and associates are all considered related parties. Further, the following party with common shareholders and/or directors are also considered related parties for disclosure purposes.

(i) AirAsia X Berhad
(ii) Tune Insurance Malaysia Berhad
(iii) Queens Park Rangers Holdings Ltd
(iv) Thai AirAsia X Co. Ltd
(v) PT Indonesia AirAsia Extra
(vi) Tune Money International Sdn Bhd

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

	Group		Economic Entity
	2023	2022	2021
	RM	RM	RM
(Repayment to)/advances from holding company			
- Capital A Berhad	(354)	(4,113)	338,027
Turnaround fees			
- AirAsia X	1,626	426	-
- Thai AirAsia X	392	949	-
- AirAsia Berhad	10,478	17,048	-
- AirAsia SEA Sdn Bhd	1,932	105	-
- AirAsia Com Guangzhou	394	-	-
Interest income on advances			
- AirAsia Inc.	-	6,690	6,315
Interest expense on advances			
- AirAsia Berhad	(39,254)	-	-
Advances to/(repayment from) related parties			
- PAA	-	(19,430)	-
- AAB	-	(3,014)	-

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29. Significant related party transactions (cont'd.)

	Group 2023 RM	2022 RM	Economic Entity 2021 RM
Management fees			
- AirAsia Berhad	19,635	-	-
Brand license revenue			
- AirAsia Berhad	29,488	-	-
Brand license cost			
- Brand AA Sdn Bhd	(68,819)	-	-
Redemptions of loyalty points			
- Biglife	8,740	-	-
Loyalty points purchased			
- Biglife	(9,809)	-	-
Commission cost			
- AirAsia Com Travel Sdn Bhd	(124,853)	-	-
Shared services cost			
- AirAsia SEA Sdn Bhd	(7,346)	(92)	-
Marketing cost			
- AirAsia Com Travel Sdn Bhd	12,201	-	-
Revenues from freight and cargo			
- Teleport	25,455	-	-
Aircraft repair and maintenance expenses			
- AirAsia Berhad	(260,581)	-	-
- Asia Digital Engineering	(56,685)	-	-
Aircraft lease rentals			
- Asia Aviation Capital Limited	(316,201)	-	-

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30. Amounts due from/(to) holding company

The details of the receivables and payables from/(to) holding company are as follows:

	Group		Economic Entity
	2022	**2022**	**2021**
	RM	**RM**	**RM**
Receivables	29,194	8,337	14
Payables	385,852	648,186	618,013

31. Amounts due from/(to) associates

The details of the receivables and payables from/(to) associates are as follows:

	Group		Economic Entity
	2023	**2022**	**2021**
	RM'000	**RM'000**	**RM'000**
Receivables	-	65,264	37,062
Payables	-	160	-

32. Amounts due from/(to) related companies

The details of the receivables and payables from/(to) related companies are as follows:

	Group		Economic Entity
	2023	**2022**	**2021**
	RM	**RM**	**RM**
Receivables	94,387	25,128	3,121
Payables	3,046,036	779	7,920

33. Amounts due from/(to) related parties

The details of the receivables and payables from/(to) related parties are as follows:

	Group		Economic Entity
	2023	**2022**	**2021**
	RM	**RM**	**RM**
Payables	220,602	-	-

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34. Financial instruments

31 December	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Financial assets at FVOCI			
Investment securities (Note 14)	5,770	-	78,672
Financial assets at amortised costs			
Other receivables (Note 15)	749,479	1,354	-
Trade receivables (Note 15)	99,979	-	-
Amounts due from associates (Note 31)	-	65,264	37,062
Amount due from holding company (Note 30)	29,194	8,337	14
Amounts due from related companies (Note 32)	94,387	25,128	3,121
Cash and bank balances (Note 17)	205,340	10,715	166
Total financial assets at amortised costs	328,921	109,444	40,363
Financial liabilities at FVTPL			
Derivative financial instruments	467	-	-
Financial liabilities at amortised costs			
Trade payables (Note 19)	1,129,656	299	-
Other payables (Note 19)	720,782	9,032	19
Amounts due to associates (Note 31)	-	160	-
Amounts due to related parties (Note 33)	220,602	-	-
Amounts due to holding company (Note 30)	385,852	648,186	618,013
Borrowings (Note 22)	920,108	170,548	-
Total financial liabilities at amortised costs	3,377,000	828,225	618,032

35. Financial risk management policies

The Group is exposed to market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group's financial performance.

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

The Group also seeks to ensure that the financial resources that are available for the development of the Group's businesses are constantly monitored and managed vis-a-vis its ongoing exposure to market, credit, liquidity and cash flow risks.

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35. Financial risk management policies (cont'd.)

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

(a) Market risk

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

Interest rate risk

The Group's exposure to market risk for changes in interest rate relates primarily to borrowings with banks and other financial institutions. The Group manages interest costs using a prudent mix of fixed and floating rate bank facilities.

Exposure to interest rate risk

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts are as follows:

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
Floating rate instruments			
Financial liabilities			
Borrowings (Note 22)	920,108	170,548	-

The weighted average effective interest rates of borrowings with licensed banks as at 31 December 2023 for the Group were 5.36% (2022: 9.16%; 2021: Nil).

Cash flow sensitivity analysis for floating rate instruments

A change of 100 basis points ("bp") in interest rates for the borrowings at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group 2023 RM'000	2022 RM'000	Economic Entity 2021 RM'000
+ 100 basis points	9,201	1,705	-
- 100 basis points	(9,201)	(1,705)	-

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35. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows: (cont'd.)

(a) Market risk (cont'd.)

Foreign currency risk

The Group's exposure to foreign currency risk is mainly from borrowings denominated in THB. Based on carrying amount as at the end of the reporting year was: below:-

	Group	
	2023	**2022**
	RM'000	**RM'000**
Borrowings	920,108	170,548

The following table demonstrates the sensitivity of the Group's loss before taxation to a reasonably possible change in the THB exchange rates with all other variables held constant:

	Group Loss before taxation	
	2023	**2022**
	RM'000	**RM'000**
THB/RM		
- strengthened by 5%	46,005	8,527
- weakened by 5%	(46,005)	(8,527)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables amounts due from related parties, amounts due form associates, amounts due from subsidiaries, and cash and cash equivalents. The Group's bank balances are placed with licensed and established banks with good credit rating. The directors are of the view that the possibility of non-performance by the banks is remote after taking into account their financial strength.

The Group minimises its credit risk by dealing with creditworthy counterparties, setting credit limits on exposures, and continuously monitoring the counterparties' payment profile and credit exposures. Most of the Group's receivables are due from its related parties which the management believes that there is limited credit risk. As the Group does not hold collateral, the maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the statement of financial position.

The Group's concentration of credit risk arise primarily from receivables due from associates and related parties.

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35. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows: (cont'd.)

(c) Liquidity and cash flow risk

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

The table below analyses the Group's payables, non-derivative financial liabilities, gross-settled and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the undiscounted cash flows.

	Less than 1 year RM'000	1-2 years RM'000	2-3 years RM'000
At 31 December 2023			
Undiscounted cashflows			
Borrowings	474,383	534,854	-
Lease liabilities	2,600,032	4,835,769	2,695,348
Trade and other payables (Note 19)	1,829,066	21,372	-
Amounts due to associates (Note 30)	-	160	-
Amounts due to holding company (Note 30)	385,852	-	-
Amounts due to related parties (Note 33)	220,602	-	-
Amounts due to related companies (Note 32)	3,046,036	-	-
	8,555,971	5,392,155	2,695,348

	Less than 1 year RM'000	1-2 years RM'000	2-3 years RM'000
At 31 December 2022			
Undiscounted cashflows			
Borrowings (Note 22)	18,695	151,853	-
Lease liabilities	264	305	259
Trade and other payables (Note 19)	9,331	-	-
Amounts due to holding company (Note 30)	648,186	-	-
Amounts due to associates (Note 31)	160	-	-
Amounts due to related parties (Note 33)	779	-	-
	677,415	152,158	259

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35. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows: (cont'd.)

(c) Liquidity and cash flow risk (cont'd.)

	Less than 1 year RM'000
At 31 December 2021	
Other payables and accruals (Note 19)	19
Amounts due to holding company (Note 30)	618,013
Amounts due to related companies (Note 32)	7,920
	625,952

(d) Capital risk management

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

In order to optimise the capital structure, or the capital allocation amongst the Group's various businesses, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, take on new debts or sell assets to reduce debt.

There was no change in the Group's approach to capital management during the financial year.

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35. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows: (cont'd.)

(d) Capital risk management (cont'd.)

Consistent with others in the industry, the Group monitors capital utilisation on the basis of the net gearing ratio. This net gearing ratio is calculated as net debts divided by total equity. Net debts are calculated as total borrowings (including "short term and long term borrowings" as shown in the Group's balance sheet) less cash and bank balances.

The net gearing ratio as at 31 December 2023, 31 December 2022 and 31 December 2021 are as follows:

	Group		Economic Entity
	2023	**2022**	**2021**
	RM'000	**RM'000**	**RM'000**
Total borrowings (Note 22)	920,108	170,548	-
Less: Cash and bank balances (Note 17)	205,340	10,715	166
Lease liabilities (Note 21)	8,319,187	828	-
Net debts	9,444,635	182,091	166
Total equity	(5,187,037)	(350,631)	(10,210)
Net Gearing Ratio (times)	(1.82)	(0.52)	(0.02)

The Group is in compliance with all externally imposed requirements for the financial years ended 31 December 2022 and 31 December 2023.

(e) Fair value measurement

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

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35. Financial risk management policies (cont'd.)

(e) Fair value measurement (cont'd.)

Determination of fair value and fair value hierarchy

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain bonds, government bonds, corporate debt securities, repurchase and reverse purchase agreements, loans, credit derivatives, certain issued notes and the Group's over the counter ("OTC") derivatives. Specific valuation techniques used to value financial instruments includes:

• The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

• The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;

• The fair value of fuel swap contracts is determined using forward fuel price at the balance sheet date, with the resulting value discounted back to present value.

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35. Financial risk management policies (cont'd.)

(e) Fair value measurement (cont'd.)

Determination of fair value and fair value hierarchy (cont'd.)

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques, including discounted cash flow projections.

36. Reconciliation of liabilities arising from financing activities

	Borrowings		**Lease liabilities**	
	2023 RM'000	**2022 RM'000**	**2023 RM'000**	**2022 RM'000**
At 1 January	170,548	-	828	-
Cashflows				
Drawdown	100,291	162,357	-	-
Repayments	(183,499)	-	(957,182)	(83)
Non cashflows				
Acquisition of subsidiary	634,100	-	4,301,600	-
Internal reorganisation	160,245	-	3,615,212	-
Transaction cost	(744)	(2,328)	-	-
Interest expense (Note 7(b))	40,968	10,259	234,830	-
Additions	-	-	705,487	911
Modification	-	-	243,116	-
Foreign exchange movement	(1,801)	260	175,296	-
At 31 December	920,108	170,548	8,319,187	828

37. Other matters

(i) Litigation involving AirAsia (India) Limited and Commissioner of Central Tax, Bangalore North

Following the announcements made on 29 December 2020 and 5 January 2021 on the disposal of 32.67% equity interest in AA India with AAAGL receiving RM158,257,515 in gross proceeds, the Economic Entity announced the signing of the share purchase agreement to sell the remaining 16.33% equity interest held in AA India by AAAGL to Air India Limited, an affiliate of Tata Sons Private Limited, India. All customary consents and regulatory approvals have been secured. AAAGL received INR1,556,487,800 (Equivalent to RM78,671,738) in gross proceeds.

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37. Other matters (cont'd.)

(i) Litigation involving AirAsia (India) Limited and Commissioner of Central Tax, Bangalore North (cont'd.)

During the course of the operations of the joint venture, AA India received certain notices from the tax authorities in India. The Economic Entity and its affiliates will continue to cooperate with AAI in contesting these notices. A potential tax liability may arise due to the indemnity provisions agreed in the Sales and Purchase Agreement for the disposal of the investment. However, based on the assessment by the tax and legal experts engaged, AAI has a defensible position against the tax demand.

(ii) Litigation involving 24 former pilots and Thai AirAsia Co., Ltd ("TAA") at Thailand Central Labour Court

On 7 April 2022, 24 cases were filled for the disputes arises from the unpaid wages during voluntary furlough scheme, compensation for unfair dismissal and loss of employment opportunity. Subsequently one case was withdrawn on 9 August 2022, bringing the total number of active cases to 23, which amounts to THB 1,303,065,500.

The court dismissed these 23 cases on 19 October 2023, however 6 out of 23 pilots appealed and court has set the appeal hearing to be on 26 August 2024. The current claim amount from the appeal cases is THB 39,930,000.

38. Significant events

(i) Restructuring of AAV

On 21 October 2021, TAA via its listed holding company, AAV had announced a restructuring and recapitalisation plan ("AAV Restructuring"). The AAV Restructuring involved, amongst others, the Economic Entity disposing its 45 % equity interest in TAA to AAV, resulting in TAA becoming a wholly owned subsidiary of AAV. In return, the Group acquired a 45.12% equity interest in AAV.

(ii) Sale of equity shares of AirAsia India Ltd.

On 2 November 2022, the Company announced the signing of the share purchase agreement to sell the remaining 16.33% equity shares held in AAIndia by AAAGL to Air India Limited, an affiliate of Tata Sons Private Limited, India. There was no gain or loss arising from the disposal.

(iii) Cybersecurity attack

On 12 November 2022, a cybersecurity breach incident was discovered on some of the holding company's redundant and non-critical servers. The Group relies on the information system of its holding company to process data from its operations. Although the systems affected were not critical, the Group, via CAB, has taken the necessary measures to resolve and prevent this incident from reoccurring. There were no operational impact arising from this incident.

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38. Significant events (cont'd.)

(iii) Cybersecurity attack (cont'd.)

Further, CAB has duly notified and cooperated with the relevant supervisory authorities upon being aware of the cyber breach. CAB has taken the relevant steps to mitigate the impact of the breach including implementing additional measures to prevent similar incidence in the future. To the best of CAB's knowledge and as at the date of this report, CAB has not been made aware of any pending litigation or claims against CAB relating to the incident.

(iv) Deemed acquisition of Asia Aviation Public Company Limited, PT AirAsia Indonesia Tbk, and AirAsia Inc

On 31 May 2023, the Company entered into a Master Brand Licensing Agreement ("MBLA") with AAB and also a Brand Sub Licensing Agreement ("SBLA") with Thai AirAsia Co., Ltd ("TAA") and Asia Aviation Public Company Limited, the parent company of TAA. On 15 June 2023, the Company also entered SBLA with PT Indonesia AirAsia ("IAA") and PT Indonesia AirAsia TBK ("AAID"), the parent company of IAA, Philippines AirAsia Inc. ("PAA") and AirAsia Inc ("AAP"), the parent company of PAA. Effective from the signing date of the SBLA, these entities have to comply with the branding and operation requirements and recommendations made by the Company under the SBLA. With this, the Company is able to direct the relevant activities of these entities and is exposed to variable returns from its involvement with these entities. Pursuant to this, in accordance with MFRS 10, AAV, AAID and AAP, as a parent company of TAA, IAA and PAA respectively, are therefore, deemed as a subsidiary of the Company for accounting consolidation purposes.

39. Subsequent events

(i) On 27 March 2024, proposed assignment of debts totalling RM1,730,000,000 between AAB, AAAGL, AAI, IAA and CAB. Arising from the assignment of debts, the proposed assignment will entail the following:

(a) Assignment of debts due to AAB by AAI and IAA of RM1,730,000,000 to AAAGL;
(b) Assignment of the debts due from AAAGL arising from (a) of RM1,730,000,000 to CAB;
(c) Waiver by CAB of the amount due from AAAGL of RM2,378,000,000 (inclusive of an existing amount due to CAB of RM648,000,000). Resulting from this, AAAGL will recognise the waiver by CAB as capital contribution.

(ii) On 25 April 2024, CAB entered into a conditional share sale and purchase agreement with AirAsia X Berhad ("AAX") for its 100% equity interest in AirAsia Aviation Group Limited ("the Company") for a consideration of RM3,000,000,000.

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AirAsia Aviation Group Limited
(Incorporated in Malaysia)

39. Subsequent events (cont'd.)

(iii) On 27 March 2024, AAAGL acquired 100% equity interest in AA Com Travel Philippines Inc for a cash consideration of RM872,000 (equivalent to approximately Peso 10.5 million) from CAB. AA Com Travel Philippines holds 60% equity interest in AirAsia Inc., which in turn holds 99.66% equity interest in PAA.

40. Financial support

CAB has indicated its intention to provide financial support to the Group to meet its liabilities and obligation as and when they fall due and to carry on its business without significant curtailment of operations.

AIRASIA BERHAD
199301029930 (284669-W)
(Incorporated in Malaysia)

Accountants' Report for the years ended 31 December 2023, 31 December 2022 and 31 December 2021

199301029930 (284669-W)
AirAsia Berhad
(Incorporated in Malaysia)

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AirAsia Berhad
(Incorporated in Malaysia)

Statement by directors

We, Datuk Kamarudin bin Meranun and Riad Asmat, being two of the Directors of AirAsia Berhad, do hereby state that, in the opinion of the Directors, the accompanying consolidated financial statements set out on pages 6 to 104 are drawn up in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group as at 31 December 2021, 31 December 2022 and 31 December 2023 and of their financial performance and cash flows for the years then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 31 July 2024.

Datuk Kamarudin bin Meranun

Riad Asmat

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AirAsia Berhad
(Incorporated in Malaysia)

The Board of Directors
AirAsia Berhad
RedQ,
Jalan Pekeliling 5,
Lapangan Terbang Antarabangsa Kuala Lumpur (KLIA2)
64000 KLIA,
Selangor Darul Ehsan,
Malaysia.

Reporting Accountants' Opinion on the Consolidated Financial Statements of AirAsia Berhad for the financial years ended 31 December 2023, 31 December 2022 and 31 December 2021 contained in the Accountants' Report of AirAsia Berhad.

Opinion

We have audited the accompanying consolidated financial statements of AirAsia Berhad ("AAB" or the "Company") and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as at 31 December 2023, 31 December 2022 and 31 December 2021 of the Group, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the year ended 31 December 2021, 31 December 2022 and 31 December 2023, and notes to the consolidated financial statements, including a summary of material accounting policy information ('together, the Consolidated Financial Statements"), as set out on pages 6 to 104. The Consolidated Financial Statements have been prepared for the purpose of complying with Chapter 10 of the Main Market Listing Requirements issued by Bursa Malaysia in connection with the proposed sale of the Group to AirAsia X Berhad ("AAX"), (the "Proposal").

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, 31 December 2022 and 31 December 2021 and its consolidated financial performance and cash flows for each of the financial years ended 31 December 2023, 31 December 2022 and 31 December 2021 in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with the approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the paragraph below under the header Reporting Accountants' Responsibilities for the Audit of the Consolidated Financial Statements section of our opinion. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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The Board of Directors
AirAsia Berhad

***Independence* and other ethical responsibilities**

We are independent of the Group in accordance with the By-Laws (on Professional Ethics, Conduct and Practise) of the Malaysian Institute of Accountants (By-Laws")) and International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code").

Responsibility of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the consolidated financial statements of the Group for the financial years ended 31 December 2023, 31 December 2022 and 31 December 2021 that gives a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the Consolidated Financial Statements that is free from material misstatement, whether due to fraud or error.

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

Reporting Accountants' Responsibilities for the Audit of the Consolidated Financial Statements

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

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AirAsia Berhad
(Incorporated in Malaysia)

The Board of Directors
AirAsia Berhad

Reporting Accountants' Responsibilities for the Audit of the Consolidated Financial Statements (contd.)

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our opinion to the related disclosures in the Consolidated Financial Statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our opinion. However, future events or conditions may cause the Company or its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements of the Group, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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AirAsia Berhad
(Incorporated in Malaysia)

The Board of Directors
AirAsia Berhad

Reporting Accountants' Responsibilities for the Audit of the Consolidated Financial Statements (contd.)

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

Restriction on Distribution and Use

This opinion is issued for the sole purpose of complying with Chapter 10 of the Main Market Listing Requirements issued by Bursa Malaysia in connection with the proposed sale of the Group to AAX in connection with the Proposal and should not be relied on for any other purposes. Accordingly, we will not accept any liability or responsibility to any other party to whom our opinion is shown or into whose hands it may come.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Low Khung Leong
No. 02697/01/2025 J
Chartered Accountant

Kuala Lumpur, Malaysia
31 July 2024

199301029930 (284669-W)
AirAsia Berhad
(Incorporated in Malaysia)

Consolidated statements of profit and loss
For the financial year ended 31 December 2021, 2022 and 2023

	Note	2023 RM'000	2022 RM'000	2021 RM'000
Revenue	4(a)	6,420,374	3,784,775	691,358
Other income	4(b)	5,098,083	554,901	405,079
Operating expenses				
- Staff costs	5(a)	(631,778)	(374,959)	(298,514)
- Depreciation of property, plant and equipment	10	(43,902)	(59,461)	(89,348)
- Depreciation of right-of-use assets	22	(944,365)	(958,760)	(1,211,051)
- Aircraft fuel expenses	7(a)	(2,802,852)	(1,923,306)	(228,451)
- Maintenance and overhaul	7(b)	(394,205)	(642,090)	(465,523)
- User charges	7(c)	(1,188,520)	(661,409)	(159,409)
- Aircraft operating lease expenses	22	(126,110)	(116,602)	-
- Other operating (expenses) / income, net of reversals		(682,233)	68,809	(193,636)
Operating profit/(loss)		4,704,492	(328,102)	(1,549,495)
Finance income	8(a)	278,118	105,739	90,803
Finance costs	8(b)	(885,513)	(846,382)	(649,468)
Net operating profit/(loss)		4,097,097	(1,068,745)	(2,108,160)
Foreign exchange losses	8(c)	(455,576)	(735,306)	(352,519)
Net fair value gains on derivatives	8(d)	-	45,021	32,033
Share of results of associates	11	(14,583)	(19,965)	(44,130)
Profit/(loss) before taxation		3,626,938	(1,778,995)	(2,472,776)
Taxation	9	(6,070)	(3,336)	(990)
Net profit/(loss) for the financial year		3,620,868	(1,782,331)	(2,473,766)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

199301029930 (284669-W)
AirAsia Berhad
(Incorporated in Malaysia)

Consolidated Statements of comprehensive income
For the financial year ended 31 December 2021, 2022 and 2023

		Group		
	Note	**2023 RM'000**	**2022 RM'000**	**2021 RM'000**
Net profit/(loss) for the financial year		3,620,868	(1,782,331)	(2,473,766)
Other comprehensive income/(loss)				
Items that may be subsequently reclassified to profit or loss				
Cash flow hedges		-	-	28,815
Foreign currency translation differences		15,314	32,254	(76,904)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		15,314	32,254	(48,089)
Items that will not be subsequently reclassified to profit or loss				
Net movement on investment securities	12	74,195	(4,568)	(5,708)
Net other comprehensive profit/(loss) that may not be reclassified to profit or loss in subsequent periods		74,195	(4,568)	(5,708)
Other comprehensive income/(loss) for the financial year, net of tax		89,509	27,686	(53,797)
Total comprehensive income/(loss) for the financial year		3,710,377	(1,754,645)	(2,527,563)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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AirAsia Berhad
(Incorporated in Malaysia)

Consolidated statements of financial position
As at 31 December 2021, 2022 and 2023

	Note	2023 RM'000	2022 RM'000	2021 RM'000
Non-current assets				
Property, plant and equipment	10	263,044	310,791	331,203
Right-of-use assets	22	6,768,547	7,794,545	8,189,596
Finance lease receivables	22	3,002,594	1,774,502	724,169
Investment in associates	11	435,771	434,517	454,482
Investment securities	12	106,847	32,652	37,220
Deferred tax assets	13	734,085	734,085	738,235
Receivables and prepayments	14	4,251,620	3,867,623	3,907,188
Deposits on aircraft purchase	15	617,412	576,034	610,489
		16,179,920	15,524,749	14,992,582
Current assets				
Inventories	17	18,757	8,484	9,739
Receivables and prepayments	14	7,742,449	2,155,340	1,795,126
Finance lease receivables	22	780,452	397,269	545,418
Deposit on aircraft purchase	15	46,345	-	-
Deposits, cash and bank balances	18	168,491	198,463	427,974
Tax recoverable		10,728	1,985	3,321
		8,767,222	2,761,541	2,781,578
Less: Current liabilities				
Trade and other payables	19(a)	2,870,184	1,618,040	1,766,504
Aircraft maintenance provisions and liabilities	20	876,155	976,253	1,015,392
Sales in advance	19(b)	809,091	810,937	547,690
Borrowings	21	147,024	76,701	443,370
Lease liabilities	22	3,459,872	3,220,900	2,719,725
Tax payables		2,473	981	723
		8,164,799	6,703,812	6,493,404
Net current asset/(liabilities)		602,423	(3,942,271)	(3,711,826)

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Consolidated statements of financial position
As at 31 December 2021, 2022 and 2023

	Note	2023 RM'000	2022 RM'000	2021 RM'000
Non-current liabilities				
Trade and other payables	19(a)	802,108	821,539	394,515
Aircraft maintenance provisions and liabilities	20	4,808,533	4,518,073	4,427,352
Borrowings	21	2,032,798	1,464,983	510,128
Lease liabilities	22	10,643,598	9,986,538	9,376,215
Derivative financial instruments	16	-	-	32,785
		18,287,037	16,791,133	14,740,995
		(1,504,694)	(5,208,655)	(3,460,239)
Capital and reserves				
Share capital	23	2,515,673	2,515,673	2,515,673
Capital contribution	23	2,408	8,824	2,595
Other reserves	25	9,506	(64,689)	(60,121)
Foreign exchange reserve		5,391	(9,923)	(42,177)
Accumulated losses		(4,037,672)	(7,658,540)	(5,876,209)
		(1,504,694)	(5,208,655)	(3,460,239)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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AirAsia Berhad
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Consolidated statements of changes in equity
For the financial year ended 31 December 2021, 2022 and 2023

		<------ Non-distributable			------>		
	Number of shares '000	Share capital RM'000 (Note 23)	Capital Contribution RM'000 (Note 23)	Foreign exchange reserves RM'000	Other reserves RM'000 (Note 25)	Distributable Retained earnings/ Non-distributable accumulated loss RM'000	Total RM'000
At 1 January 2021	3,341,974	2,515,673	-	34,727	(83,228)	(3,402,443)	(935,271)
Net loss for the financial year	-	-	-	-	-	(2,473,766)	(2,473,766)
Other comprehensive (loss)/income	-	-	-	(76,904)	23,107	-	(53,797)
Total comprehensive loss	-	-	-	(76,904)	23,107	(2,473,766)	(2,527,563)
Employee share option scheme	-	-	2,595	-	-	-	2,595
At 31 December 2021/ 1 January 2022	3,341,974	2,515,673	2,595	(42,177)	(60,121)	(5,876,209)	(3,460,239)
Net loss for the financial year	-	-	-	-	-	(1,782,331)	(1,782,331)
Other comprehensive income/(loss)	-	-	-	32,254	(4,568)	-	27,686
Total comprehensive loss	-	-	-	32,254	(4,568)	(1,782,331)	(1,754,645)
Employee share option scheme	-	-	6,229	-	-	-	6,229
At 31 December 2022	3,341,974	2,515,673	8,824	(9,923)	(64,689)	(7,658,540)	(5,208,655)

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Consolidated statements of changes in equity
For the financial year ended 31 December 2021, 2022 and 2023 (cont'd.)

		<------------------------ Non-distributable			------------------------>	Distributable	
	Number of shares '000	Share capital RM'000 (Note 23)	Capital Contribution RM'000 (Note 23)	Foreign exchange reserves RM'000	Other reserves RM'000 (Note 25)	Retained earnings/ Non-distributable accumulated loss RM'000	Total RM'000
At 31 December 2022/ 1 January 2023	3,341,974	2,515,673	8,824	(9,923)	(64,689)	(7,658,540)	(5,208,655)
Net profit for the financial year	-	-	-	-	-	3,620,868	3,620,868
Other comprehensive income	-	-	-	15,314	74,195	-	89,509
Total comprehensive income	-	-	-	15,314	74,195	3,620,868	3,710,377
Employee share option scheme	-	-	(6,416)	-	-	-	(6,416)
At 31 December 2023	3,341,974	2,515,673	2,408	5,391	9,506	(4,037,672)	(1,504,694)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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AirAsia Berhad
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Consolidated statements of cash flows
For the financial year ended 31 December 2021, 2022 and 2023

	Note	2023 RM'000	2022 RM'000	2021 RM'000
Cash flows from operating activities				
Profit/ (loss) before taxation		3,626,938	(1,778,995)	(2,472,776)
Adjustments for:				
Property, plant and equipment				
- Depreciation	10	43,902	59,461	89,348
- Gain on disposals	4(b)	(248)	(133)	(35,731)
- Reversal of impairment	10	(421)	(6,956)	(17,186)
Right-of-use assets				
- Depreciation	22	944,365	958,760	1,211,051
- Reversal of impairment	22	-	(406,053)	-
- Loss on termination	22	378,605	-	-
Loss/(Gain) on lease modifications	22	(87,185)	316,987	(210,813)
Impairment / (reversal of impairment) on				
- investment in associate				
- trade and other receivables	6	(41,162)	67,853	2,833
- amounts due from associates	6			
- amounts due from related parties	6	116,379	-	13,264
- finance lease receivables	22	-	(48,734)	-
Gain on disposal of brand		(4,500,000)	-	-
Share-based payments	24	2,409	2,479	1,033
Share of results of associates		14,583	19,965	44,130
Provision on stock loss		-	-	5,066
Net fair value gains on derivatives	8(d)	-	(45,021)	(32,033)
Operating profit/(loss) carried forward		498,165	(860,387)	(1,401,814)

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AirAsia Berhad
(Incorporated in Malaysia)

Consolidated statements of cash flows
For the financial year ended 31 December 2021, 2022 and 2023 (cont'd.)

	Note	2023 RM'000	2022 RM'000	2021 RM'000
Cash flows from operating activities (cont'd.)				
Operating profit/(loss) brought forward		498,165	(860,387)	(1,401,814)
Net unrealised foreign exchange loss	8(c)	284,830	655,941	345,066
Interest expense	8(b)	258,997	230,625	76,376
Interest expense - lease liabilities	8(b)	626,516	615,757	573,092
Interest income	8(a)	(53,061)	(51,890)	(45,573)
Interest income - finance lease receivables	8(a)	(225,057)	(53,849)	(45,230)
		1,390,390	536,197	(498,083)
Changes in working capital:				
Inventories		(10,273)	1,255	(21,252)
Receivables and prepayments		(2,200,608)	(11,874)	(133,120)
Payables and provisions		1,253,595	155,682	1,267,054
Sales in advance		(1,846)	263,247	(1,984)
Amounts due (to)/from associates, related parties and immediate holding company		(54,931)	(430,426)	(501,841)
Cash generated from operations		376,327	514,081	110,774
Interest paid		(178,109)	(172,585)	(69,444)
Interest received		2,174	1,528	664
Taxes paid		(6,010)	(2,166)	(4,375)
Net cash generated from operating activities		194,382	340,858	37,619
Cash flows from investing activities				
Property, plant and equipment				
- Additions		(85,121)	(32,521)	(30,937)
- Proceeds from disposals		93,599	3,997	255,177
Net cash from/(to) investing activities carried forward		8,478	(28,524)	224,240

199301029930 (284669-W)
AirAsia Berhad
(Incorporated in Malaysia)

Consolidated statements of cash flows
For the financial year ended 31 December 2021, 2022 and 2023 (cont'd.)

	Note	2023 RM'000	2022 RM'000	2021 RM'000
Cash flows from investing activities (cont'd.)				
Net cash from/(to) investing activities brought forward		8,478	(28,524)	224,240
Proceeds from disposal of a derivative		-	12,140	-
Net changes:				
- Deposits pledged as securities and restricted cash		(18,463)	(2,988)	(1,601)
- Deposits with licensed banks with maturity period of more than 3 months		(8,717)	176	(9)
Proceeds from disposal of subsidiaries		-	1,616	-
Acquisition of investment securities	12	-	-	(122)
Receipt of finance lease receivables		917,335	118,178	350,579
Net cash generated from investing activities		898,633	100,598	573,087

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(Incorporated in Malaysia)

Consolidated statements of cash flows
For the financial year ended 31 December 2021, 2022 and 2023 (cont'd.)

	Note	2023 RM'000	2022 RM'000	2021 RM'000
Cash flows from financing activities				
Proceeds from borrowings		680,274	998,528	521,060
Repayment of borrowings		(42,136)	(415,730)	(464,819)
Payment of lease liabilities		(1,788,346)	(1,256,577)	(426,984)
Net cash used in financing activities		(1,150,208)	(673,779)	(370,743)
Net (decrease)/increase for the financial year		(57,193)	(232,323)	239,963
Currency translation differences		41	-	998
Cash and cash equivalents at beginning of the financial year		187,262	419,585	178,624
Cash and cash equivalents at end of the financial year		130,110	187,262	419,585

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

199301029930 (284669-W)
AirAsia Berhad
(Incorporated in Malaysia)

Notes to the consolidated financial information
For the financial year ended 31 December 2021, 2022 and 2023

1. General information

AirAsia Berhad ("AAB" or "the Company") is a public limited liability company incorporated and domiciled in Malaysia.

This Accountants' Report comprises the consolidated financial information of AirAsia Berhad and its subsidiaries, collectively known as "the Group" which includes the consolidated statements of financial position as at 31 December 2023, 31 December 2022 and 31 December 2021, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the financial years ended 31 December 2023, 31 December 2022 and 31 December 2021, and a material accounting policy information and other explanatory notes.

The principal activity of the Group is that of providing air transportation services and aircraft leasing services. The principal activities of the associates are described in Note 11. There were no significant changes in the nature of these activities during the financial year reported in the Accountants' Report.

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

RedQ,
Jalan Pekeliling 5,
Lapangan Terbang Antarabangsa Kuala Lumpur,
64000 KLIA,
Selangor Darul Ehsan,
Malaysia.

The holding company is Capital A Berhad ("CAB"), which is incorporated in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

2. Material accounting policy information

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

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AirAsia Berhad
(Incorporated in Malaysia)

2. Material accounting policy information (cont'd.)

2.1 Basis of preparation (cont'd.)

The financial statements of the Group have been prepared under the historical cost convention, unless otherwise disclosed in the accounting policies below. The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

As at 31 December 2023, the shareholder's deficit is RM1.5 billion (2022: RM5.2 billion; 2021: RM3.5 billion) is a going concern indicator.

These conditions may affect the ability of the Group to meet its financial obligations as and when they fall due. The Group has undertaken several actions to mitigate this risk as disclosed below:

1. Funding

The Group is currently engaged in discussion with lenders at different stages for debt and equity fundraising, with an estimated amount of RM3 billion. As at the date of this report, the Group has received commitment from investors for a Revenue Bond Program of up to RM1.68 billion (equivalent to USD365 million). The Revenue Bond program entails the conversion of the Group's outstanding lease payments of RM1.1 billion (approximately USD240 million) into a bond (Tranche 1) and cash inflow of approximately RM575 million (approximately USD125 million) (Tranche 2) to finance the Group's working capital, maintenance cost and lease rentals. The Revenue Bond will be secured against passenger seat sales from identified routes and shares in the Group. Tranche 1 of the Revenue Bond has a tenure of 2.5 years whereas Tranche 2 has a tenure of 4 years. The bonds are expected to be issued by end of August 2024.

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2. Material accounting policy information (cont'd.)

2.1 Basis of preparation (cont'd.)

These conditions may affect the ability of the Group to meet its financial obligations as and when they fall due. The Group has undertaken several actions to mitigate this risk as disclosed below: (cont'd.)

2. Capacity and Network Management

For the first quarter of 2024, AAB is implementing all possible to measures to return the grounded fleet to service which is estimated to be completed by end of 2024.

This is based on the Directors' cash flow projections with major assumptions being the Directors' expectations of the recovery in passenger numbers arising from the resumption of domestic and international travel, the volatility of major operating costs and the continuous support of the Group's aircraft lessors as well as the debt raise under Revenue Bond Program. The Directors believe that the Group will continue to receive support from its lessors and complete the implementation of the Revenue Bond Program. Based on the cash flow forecast which incorporates the actions taken to date, the Directors concluded that there is no material uncertainty on the Group's and the Company's ability to continue as going concerns. The Directors have accordingly prepared the financial statements of the Group and the Company on a going concern basis.

By 31 December 2023, the Group had successfully restructured 161 aircraft leases and was in discussions with lessors to restructure the remaining leases, seeking to waive the lease rentals in arrears and to reduce future lease rates while extending lease terms where appropriate.

2.2 Standards, amendments to published standards and interpretations that are effective

The Group and the Company have applied the following amendments for the first time for the financial year beginning on 1 January 2021:

Amendments to MFRS 4 Insurance Contracts (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 7 Financial Instruments Disclosures (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 9 Financial Instruments (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 16 Leases (Amendments to Interest Rate Benchmark Reform - Phase 2)

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2. Material accounting policy information (cont'd.)

2.2 Standards, amendments to published standards and interpretations that are effective (cont'd.)

The Group and the Company have applied the following amendments for the first time for the financial year beginning on 1 January 2021: (cont'd.)

Amendments to MFRS 139 Recognition and Measurement (Amendments to Interest Rate Benchmark Reform - Phase 2)
Amendments to MFRS 16 Leases (Amendments to COVID-19 Related Rent Concessions beyond 30 June 2021)

The Group has applied the following amendments for the first time for the financial year beginning on 1 January 2022:

Amendments to MFRS 116: Property, Plant and Equipment:
- Property, Plant and Equipment - Proceeds before intended use

Amendments to MFRS 137: Onerous Contracts
- Cost of Fulfilling a Contract

Annual Improvements to MFRS Standards 2018-2020
- Amendments to MFRS 1: First-time Adoption of International Financial Reporting Standards
  - Subsidiary of a First-time Adopter
- Amendments to MFRS 9: Financial Instruments
  - Fees in the '10 Percent' Test for Derecognition of Financial Liabilities
- Amendments to MFRS 141: Agriculture
  - Taxation in Fair Value Measurements

Amendments to MFRS 3 Business Combinations: Reference to the Conceptual Framework
Amendments to MFRS 137: Onerous Contracts
- Costs of Fulfilling a Contract

Amendment to MFRS 16: Covid-19-Related Rent Concessions Beyond 30 June 2022 (effective 1 April 2022)

The Group and the Company has applied the following amendments for the first time for the financial year beginning on 1 January 2023:

MFRS 101: Disclosure of Accounting Policies (Amendment to MFRS 101 and MFRS Practice Statement 2)
MFRS 108: Definition of Accounting Estimates (Amendment to MFRS 108)
MFRS 17: Insurance Contracts - Initial Application of MFRS 17 and MFRS 9 - Comparative Information (Amendment to MFRS 17)
MFRS 112: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to MFRS 112)
MFRS 112: International Tax Reform - Pillar Two Model Rules (Amendment to MFRS 112)

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2. Material accounting policy information (cont'd.)

2.2 Standards, amendments to published standards and interpretations that are effective (cont'd.)

The adoption of these new amendments, standards and interpretations did not have any material effect on the financial performance or position of the Group and of the Company, except for:

MFRS 101: Disclosure of Accounting Policies (Amendment to MFRS 101 and MFRS Practice Statement 2)

The amendments to MFRS 101 and MFRS Practice Statement 2 provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's and the Company's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's and the Company's financial statements.

2.3 Standards issued but not yet effective

The amendments, standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and Company's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Description	**Effective for annual periods beginning on or after**
MFRS 101: Classification of Liabilities as Current or Non-current (Amendments to MFRS 101)	1 January 2024
Amendments to MFRS 16: Lease Liability in a Sale and Leaseback (Amendments to MFRS 16)	1 January 2024
Amendments to MFRS 101: Non-current Liabilities with Covenants (Amendments to MFRS 101)	1 January 2024

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2. Material accounting policy information (cont'd.)

2.3 Standards issued but not yet effective

The amendments, standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and Company's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. (cont'd.)

	Effective for annual periods beginning on or after
MFRS 7 and MFRS 107: Supplier Finance Arrangements (Amendments to MFRS 7 and MFRS 107)	1 January 2024
MFRS 121: Lack of Exchangeability (Amendments to MFRS 121)	1 January 2025
MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)	Deferred

The directors expect that the adoption of the above amendments, standards and interpretations will have no material impact on the financial statements in the period of initial application.

2.4 Basis of consolidation

2.4.1 Subsidiaries

A subsidiary is an entity over which the Group has all the following:

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.1 Subsidiaries

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.1 Subsidiaries (cont'd.)

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.2 Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net asset of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. Thus, reversals of impairments may effectively include reversal of goodwill impairments. Impairments and reversals are presented within 'Share of profit of an associate' in the consolidated statement of profit or loss.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.
The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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2. Material accounting policy information (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.2 Associates (cont'd.)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the statement of profit or loss.
Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.5 Property, plant and equipment

Plant and equipment except for freehold land are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs also include borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

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

Freehold land is not depreciated. Significant parts of an item of plant and property are depreciated separately over their estimated useful lives in accordance with the principle in MFRS 116 "Property, Plant and Equipment". Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives.

2. Material accounting policy information (cont'd.)

2.5 Property, plant and equipment (cont'd.)

The useful lives for this purpose are as follows:

Aircraft	
- engines, airframes and spare engines excluding service potential	25 years
- service potential of engines	8 years
- service potential of airframes	13 years
- service potential of spare engines	11 years
Aircraft spares	10 years
Aircraft fixtures and fittings	Useful life of aircraft or remaining lease term of aircraft, whichever is shorter
Buildings	28.75 years
Motor vehicles	5 years
Office equipment, furniture and fittings	5 years
Office renovation	5 years
Simulator equipment	25 years
Operating plant and ground equipment	5 years
In-flight equipment	5 years
Training equipment	5 years

Service potential of 8 years represents the period over which the expected cost of the first major aircraft engine overhaul is depreciated. Subsequent to the engine overhaul, the actual cost incurred is capitalised and depreciated over the subsequent 8 years.

Service potential of 13 years for airframes represents the period over which the expected cost of the first major airframe check is depreciated. Subsequent to the airframe check, the actual cost incurred is capitalised and depreciated over the subsequent 13 years.

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

Residual values, where applicable, are reviewed annually against prevailing market rates at the balance sheet date for equivalent aged assets and depreciation rates are adjusted accordingly on a prospective basis.

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

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2. Material accounting policy information (cont'd.)

2.5 Property, plant and equipment (cont'd.)

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the profit or loss.

2.6 Impairment of non-financial assets

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

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

2.7 Maintenance and overhaul

Owned aircraft

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned aircraft is described in accounting policy Note 2.5 on property, plant and equipment.

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2. Material accounting policy information (cont'd.)

2.7 Maintenance and overhaul (cont'd.)

Leased aircraft

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

2.8 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

i) ROU assets

The Group recognises ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Aircraft and spare engines	2 - 19 years
Land and building	2 - 20 years

2. Material accounting policy information (cont'd.)

2.8 Leases (cont'd.)

Group as a lessee (cont'd.)

i) ROU assets (cont'd.)

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The ROU assets are also subject to impairment. Refer to the accounting policies in Note 2.6 impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Lease modifications that are not accounted for as separate leases are accounted as adjustments to the carrying value of the lease liability with a corresponding impact to the related right-of-use asset.

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2. Material accounting policy information (cont'd.)

2.8 Leases (cont'd.)

Group as a lessee (cont'd.)

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

As a lessor, the Group determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee.

i) Finance leases

The Group classifies a lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Group derecognises the underlying asset and recognises a receivable at an amount equal to the net investment in a finance lease. Net investment in a finance lease is measured at an amount equal to the sum of the present value of lease payments from lessee and the unguaranteed residual value of the underlying asset. Initial direct costs are also included in the initial measurement of the net investment. The net investments is subject to MFRS 9 'Financial Instruments' on impairment of financial assets. In addition, the Group reviews regularly the estimated unguaranteed residual value.

Lease income is recognised over the term of the lease using the net investment method so as to reflect a constant periodic rate of return. The Group revises the lease income allocation if there is a reduction in the estimated unguaranteed residual value.

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2. Material accounting policy information (cont'd.)

2.8 Leases (cont'd.)

Group as a lessor (cont'd.)

ii) Operating leases

The Group classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Group recognises lease payments received under operating lease as lease income on a straight-line basis over the lease term.

iii) Sublease classification

When the Group is an intermediate lessor, it assesses the lease classification of a sublease with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. If a head lease is short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

The Group as an intermediate lessor accounts for the sublease as follows:

- If the sublease is classified as an operating lease, the original lessee continues to account for the lease liability and ROU asset on the head lease.
- If the sublease is classified as a finance lease, the original lessee derecognises the ROU asset on the head lease at the sublease commencement date and continues to account for the original lease liability. The original lessee, as the sublessor, recognises a net investment in the sublease and evaluates it for impairment.

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2. Material accounting policy information (cont'd.)

2.9 Inventories

Inventories which comprise consumables used internally for repairs and maintenance are stated at the lower of cost and net realisable value.

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

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

2.10 Financial assets

2.10.1 Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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2. Material accounting policy information (cont'd.)

2.10 Financial assets (cont'd.)

2.10.1 Initial recognition and measurement (cont'd.)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

2.10.2 Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); or
- Financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial assets at fair value through other comprehensive income

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under MFRS 132 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

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2. Material accounting policy information (cont'd.)

2.10 Financial assets (cont'd.)

2.10.2 Subsequent measurement (cont'd.)

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Amortised costs

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.10.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired;

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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2. Material accounting policy information (cont'd.)

2.10 Financial assets (cont'd.)

2.10.3 Derecognition (cont'd.)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.10.4 Impairment

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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2. Material accounting policy information (cont'd.)

2.10 Financial assets (cont'd.)

2.10.4 Impairment (cont'd.)

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Good Credit Rating Agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However,in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.11 Financial liabilities

2.11.1 Classification and measurement

The Group classifies its financial liabilities in the following category: other financial liabilities. Management determines the classification of financial liabilities at initial recognition.

The Group does not hold any financial liabilities carried at fair value through profit or loss (except for derivative financial instruments).

2. Material accounting policy information (cont'd.)

2.11 Financial liabilities (cont'd.)

2.11.1 Classification and measurement (cont'd.)

Other financial liabilities are non-derivative financial liabilities. Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial liability and subsequently carried at amortised cost using the effective interest method. Changes in the carrying value of these liabilities are recognised in the income statements.

The Group's other financial liabilities comprise payables (including intercompanies and related parties' balances), borrowings and lease liabilities in the statement of financial position. Financial liabilities are classified as current liabilities; except for maturities greater than 12 months after the reporting date, in which case they are classified as non-current liabilities.

Financial liabilities are derecognised when the liability is either discharged, cancelled, expired or has been restructured with substantially different terms.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

2.12 Offsetting financial instruments

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

2.13 Derivatives and hedge accounting

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

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2. Material accounting policy information (cont'd.)

2.13 Derivatives and hedge accounting (cont'd.)

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

(a) There is 'an economic relationship' between the hedged item and the hedging instrument.

(b) The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.

(c) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Designation of a risk component of a hedged item is permitted when it is a separable identifiable component of the item, and the changes in the cash flows or the fair value of the item attributable to changes in the risk component is reliably measured.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

2. Material accounting policy information (cont'd.)

2.13 Derivatives and hedge accounting (cont'd.)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'net fair value gains/(losses) on derivatives'.

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

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

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

2.14 Cash and cash equivalents

For the purpose of the statements of cash flow, cash and cash equivalents comprise cash on hand, bank balances, demand deposits and other short term, highly liquid investments with original maturities of three months or less, less bank overdrafts. Deposits held as pledged securities for banking facilities granted to the Group are not included as cash and cash equivalents.

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2. Material accounting policy information (cont'd.)

2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense in profit or loss.

Contingent liabilities are not recognised in the statement of financial position but are disclosed in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised but disclosed in the notes to financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements.

2.16 Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income.

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2. Material accounting policy information (cont'd.)

2.17 Current and deferred income tax (cont'd.)

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

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

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

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, joint ventures or associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred tax liability is not recognised.

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

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2. Material accounting policy information (cont'd.)

2.18 Employee benefits

2.18.1 Short term employee benefits

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

2.18.2 Defined contribution retirement plan

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

2.18.3 Share-based payments

Employees of the Company and certain subsidiary companies of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the share options at the date of grant. This cost is recognised in profit or loss, with a corresponding increase in the employee share option reserves over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's and the Group's best estimate of the number of share options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised at the beginning and end of the period.

No expense is recognised for share options that do not ultimately vest because market performance and/or service conditions have not been met. The proceeds received net of any directly attributable transaction costs and the employee share option reserve relating to the vested options are transferred to share capital when the share options are exercised.

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2. Material accounting policy information (cont'd.)

2.19 Revenue and other income

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

2.19.1 Schedule flights, charter flights and ancillary services

These revenues relate to scheduled passenger flight and charter flight income and is recorded net of discounts and includes the related ancillary revenue (including airport and insurance surcharges, administrative fees, baggage fee, assigned seat, cancellation, documentation and other fees, and on-board sale of meals and merchandise). The Group initially recognises ticket sales as 'sales in advance' which is presented as current liabilities in line with MFRS 15. Revenue is recognised when the air transportation service is provided (i.e. recognised at a point in time).

2.19.2 Aircraft operating leases

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

2.19.3 Interest income

Interest income is recognised using the effective interest method.

2.19.4 Contract balances

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., upon completion of services rendered to customer).

2. Material accounting policy information (cont'd.)

2.20 Foreign currencies

2.20.1 Functional and presentation currency

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

2.20.2 Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

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2. Material accounting policy information (cont'd.)

2.20 Foreign currencies (cont'd.)

2.20.2 Transactions and balances (cont'd.)

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

2.21 Maintenance reserve funds

Maintenance reserve funds relate to payments made by the lessee for maintenance activities undertaken during the lease period. The Group will reimburse the lessee for agreed maintenance work done as and when incurred. The Group records the amounts received as maintenance reserve funds. At the expiry of the lease term, excess maintenance reserve is recognised in the profit and loss account.

2.22 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

(i) expected to be realised or intended to be sold or consumed in normal operating cycle;
(ii) held primarily for the purpose of trading;
(iii) expected to be realised within twelve months after the reporting period; or
(iv) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

(i) it is expected to be settled in normal operating cycle;
(ii) it is held primarily for the purpose of trading;
(iii) it is due to be settled within twelve months after the reporting period; or
(iv) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets/liabilities are classified as non-current assets/liabilities.

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3. Critical accounting estimates and judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have a material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are explained below.

3.1 Impairment assessment of property, plant and equipment and right-of-use assets

The Group is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. This requires an estimation of the value in use of the airline cash generating units.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

There is a high degree of estimation uncertainty inherent in estimating the duration and severity of the economic downturn caused by the COVID-19 pandemic, and the pattern of expected recovery. As a result, the estimates and assumptions used in the cash flow projections which form the basis of the recoverable amounts attributable to the CGUs require significant judgement. These judgements require estimates to be made over areas including those relating to the timing of recovery of the COVID-19 pandemic, future revenues, operating costs, growth rates, projected aircraft usage, aircraft capital expenditure, foreign exchange rates and discount rates.

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3. Critical accounting estimates and judgements (cont'd.)

3.1 Impairment assessment of property, plant and equipment and right-of-use assets (cont'd.)

Further details of the carrying value, the key assumptions applied in the impairment assessment of property, plant and equipment and right-of-use assets are disclosed in Notes 10 and 22.

3.2 Impairment assessment of financial assets

The Group applies the MFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance ("ECL") for all receivables (including intercompanies and related parties' balances).

The Group assesses the credit risk at each reporting date, whether there have been significant increases in credit risk since initial recognition. The impairment provisions for receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates specific to the debtors at the end of each reporting period.

3.3 Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of regulatory approvals for prospective routes, aircraft delivery, fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on expected future performance and taxable profits which have been adjusted for non-recurring circumstances and a reasonable growth rate.

Key assumptions and estimates concerning the future used to estimate the future taxable profits have considered the effects of the COVID-19 pandemic.

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3. Critical accounting estimates and judgements (cont'd.)

3.4 Provision for aircraft maintenance and overhaul costs

The Group operates aircraft which are either owned or held under operating lease arrangement. In respect of the aircraft held under operating lease arrangements, the Group is contractually obligated to maintain the aircraft during the lease period and to redeliver the aircraft to the lessors at the end of the lease term, in certain pre-agreed conditions. Accordingly, the Group estimates the aircraft maintenance costs required to fulfil these obligations at the end of the lease period and recognise a provision for these costs at each reporting date.

A provision by its nature is more uncertain than most other items in the statement of financial position. The estimates of the outcome and financial effects are determined by the judgement of the management, supplemented by experience from similar transactions. Any revision in assumptions and estimations that causes a material effect to the provision would be adjusted prospectively in the financial statements.

3.5 Impairment assessment of interests in associates and joint ventures

The Company's interests in subsidiaries, associates and joint ventures are tested for impairment by comparing the carrying amounts with the value in use. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the operation of the subsidiaries, the associates and the joint ventures, and to apply a suitable discount rate and growth rate in order to calculate the present value of those cash flows.

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4. Revenue and other income

(a) Revenue

	2023 RM'000	2022 RM'000	2021 RM'000
Passenger revenue			
- seat sales	4,309,335	2,859,127	497,482
- ancillary	2,026,987	866,225	180,515
Freight services	84,052	59,423	13,361
	6,420,374	3,784,775	691,358

Ancillary passenger revenue includes ancillary income such as baggage fees, assigned seats, cancellations, documentation and other fees, and on-board sale of meals, merchandise and other fees.

Revenue by reportable geographical segment is as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
Malaysia	6,420,374	3,784,775	678,215
Others	-	-	13,143
	6,420,374	3,784,775	691,358
Timing of revenue recognition			
At a point in time	6,420,374	3,784,775	691,358

Salient terms of revenue from contracts with customers:

- Schedule flights	Normally settled by cash and refunds for airport tax are claimable up to 6 months period of travel date.
- Charter flights	Full upfront payment before the flight.
- Freight services	Credit term of 30 days (2022: 30 days) from invoice date.
- Ancillary service	Normally settled by cash and generally no refunds.

Contract balances are disclosed in Note 19 and remaining unfulfilled performance obligations are disclosed as sales in advance.

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4. Revenue and other income (cont'd.)

(b) Other income

	2023 RM'000	2022 RM'000	2021 RM'000
Gain on disposal of property, plant and equipment	248	133	35,731
Support service fees charged to related parties for provision of support services	1,234	1,797	50,800
Gain on disposal of brand (Note 14(g))	4,500,000	-	-
Airline operating lease income	179,361	304,819	247,934
Brand license fee	38,925	37,025	-
Gain on termination of lease	112,183	-	-
Others	266,132	211,127	70,614
	5,098,083	554,901	405,079

"Others" income includes commission income and advertising income.

Airline operating lease income

The operating lease income are from the following lessees:

	2023 RM'000	2022 RM'000	2021 RM'000
Related companies:			
PT Indonesia AirAsia ("IAA")	34,834	63,580	44,371
AirAsia Inc (including Philippines AirAsia Inc)	-	303	83
Thai AirAsia Co. Ltd ("TAA")	100,572	204,447	175,793
AirAsia India Limited ("AA India")	-	-	273
Teleport Everywhere Pte Ltd	43,955	8,467	886
Others:			
Third-parties	-	28,022	26,528
	179,361	304,819	247,934

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5. Staff costs and directors' remuneration

(a) Staff costs

	2023 RM'000	2022 RM'000	2021 RM'000
Salaries, bonus, allowances and other employee benefits	575,371	338,180	272,090
Defined contribution retirement plan	56,407	36,779	26,424
	631,778	374,959	298,514

(b) Directors' remuneration

	2023 RM'000	2022 RM'000	2021 RM'000
Non-Executive Directors			
- fees	-	-	17

6. Other operating expenses net of reversals

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

	2023 RM'000	2022 RM'000	2021 RM'000
Impairment of:			
- trade and other receivables (Note 14)	120,545	67,853	16,097
Reversal of impairment of:			
- finance lease receivables (Note 22)	-	(48,734)	-
- property, plant and equipment (Note 10)	(421)	(6,956)	(17,186)
- right-of-use assets (Note 22)	-	(406,053)	-
- trade and other receivables (Note 14)	(45,328)	-	-
Fees charged by a related company for provision of support services	64,481	93,023	64,186
Auditors' remuneration			
- audit fees	1,400	1,099	1,048
Advertising costs	14,029	8,464	14,530

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7. Aircraft fuel expenses, maintenance and overhaul and user charges

(a) Aircraft fuel expenses

Aircraft fuel expenses encompass both the direct fuel cost and any gains or losses incurred through fuel hedging. The Group ceased fuel hedging operations in 2022.

(b) Maintenance and overhaul

Maintenance and overhaul include maintenance related works on aircraft, the related consumables and aircraft maintenance provision.

(c) User charges

User charges include airport related charges, ground operational charges, aircraft insurance cost and inflight related expenses.

8. Finance income/(costs), foreign exchange (losses)/gains and net fair value gains/(losses) on derivatives

(a) Finance income

	2023 RM'000	**2022 RM'000**	**2021 RM'000**
Interest income from:			
- deposits, cash and bank balances with licensed banks	2,150	1,307	640
- amounts due from related companies and associates	40,112	38,401	40,181
- finance lease receivables	225,057	53,849	45,230
Impact of discounting effect on financial instruments	10,775	11,961	4,728
Others	24	221	24
	278,118	105,739	90,803

AAB's subsidiary, Asia Aviation Capital Ltd ("AACL") leases aircrafts, including components of aircrafts, which it sub-leases to its related companies. The related companies are IAA, PAA and TAA.

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8. Finance income/(costs), foreign exchange (losses)/gains and net fair value gains/(losses) on derivatives (cont'd.)

(b) Finance costs

	2023 RM'000	2022 RM'000	2021 RM'000
Interest expense			
- bank borrowings	(178,109)	(152,916)	(69,444)
- lease liabilities	(626,516)	(615,757)	(573,092)
- advances from holding company*	(74,070)	(73,974)	-
Others	(6,818)	(3,735)	(6,932)
	(885,513)	(846,382)	(649,468)

* The Company obtained funding from its holding company through a RCUIDS program implemented by the holding company. Interest was charged at 9% per annum. Details of the RCUIDS is disclosed in Note 19.

(c) Foreign exchange losses

	2023 RM'000	2022 RM'000	2021 RM'000
Realised	(170,746)	(79,365)	(7,453)
Unrealised	(284,830)	(655,941)	(345,066)
	(455,576)	(735,306)	(352,519)

(d) Net fair value gains on derivatives

	2023 RM'000	2022 RM'000	2021 RM'000
Fair value gains from interest rate hedging contracts	-	-	32,033
Net gain on termination hedging contracts	-	45,021	-
	-	45,021	32,033

Fair value gains on derivatives consists of fair value changes due to movement in mark-to-market ("MTM") position on outstanding hedging contracts that did not qualify for hedge accounting. The Group had terminated all hedging contracts by the end of 2022.

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9. Taxation

	2023 RM'000	2022 RM'000	2021 RM'000
Current taxation			
- Malaysian tax	80	20	1,225
- foreign tax	5,990	3,316	2,464
Deferred taxation (Note 13)	-	-	(2,699)
	6,070	3,336	990
Current taxation			
- current financial year	6,050	3,316	2,877
- underprovision of income tax in respect of previous years	20	20	812
	6,070	3,336	3,689
Deferred taxation			
- origination and reversal of temporary differences	-	-	(2,726)
- under provision of deferred tax in respect of previous years	-	-	27
	-	-	(2,699)
	6,070	3,336	990

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9. Taxation (cont'd.)

The explanation of the relationship between taxation and loss before taxation is as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
Profit/(loss) before taxation	3,626,938	(1,778,995)	(2,472,776)
Tax calculated at Malaysian tax rate of 24%	870,466	(426,959)	(593,466)
Tax effects of:			
- foreign taxation	28,397	3,315	2,464
- expenses not deductible for tax purposes	265,696	174,079	94,727
- income not subject to tax	(1,213,651)	(1,442)	(9,399)
- underprovision of income tax in respect of previous years	20	20	812
- share of results of associates	(3,500)	(4,792)	(10,591)
- under provision of deferred tax in respect of previous years	-	-	27
- deferred tax assets not recognised	58,642	259,115	516,416
	6,070	3,336	990

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10. Property, plant and equipment

	At 1 January 2023 RM'000	Additions RM'000	Disposals RM'000	Reclassi-fication RM'000	Depreciation charge RM'000	Reversal of impairment RM'000	Exchange differences RM'000	At 31 December 2023 RM'000
Group								
Carrying amount								
Aircraft engines, airframes and service potential	120,988	-	(93,339)	-	(15,732)	-	3,575	15,492
Aircraft spares	21,539	404	-	-	(5,938)	-	-	16,005
Aircraft fixtures and fittings	6,560	-	-	69	(6,629)	421	-	421
Buildings	138,986	-	-	321	(6,067)	-	-	133,240
Motor vehicles	2,667	647	-	-	(1,167)	-	-	2,147
Office equipment, furniture and fittings	11,590	79,512	(12)	-	(5,269)	-	-	85,821
Office renovation	3,357	440	-	-	(1,882)	-	-	1,915
Simulator equipment	547	-	-	-	(9)	-	-	538
Operating plant and ground equipment	4,206	4,118	-	-	(944)	-	-	7,380
In-flight equipment	317	-	-	(1)	(236)	-	-	80
Training equipment	34	-	-	-	(29)	-	-	5
	310,791	85,121	(93,351)	389	(43,902)	421	3,575	263,044

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10. Property, plant and equipment (cont'd.)

	Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000
Group (cont'd.)			
At 31 December 2023			
Aircraft engines, airframes and service potential	34,294	(17,730)	16,564
Aircraft spares	28,743	(12,738)	16,005
Aircraft fixtures and fittings	147,594	(147,173)	421
Buildings	176,791	(43,551)	133,240
Motor vehicles	13,664	(11,517)	2,147
Office equipment, furniture and fittings	242,536	(157,779)	84,757
Office renovation	42,219	(40,312)	1,907
Simulator equipment	238	300	538
Operating plant and ground equipment	13,393	(6,013)	7,380
In-flight equipment	3,381	(3,301)	80
Training equipment	4,344	(4,339)	5
	707,197	(444,153)	263,044

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10. Property, plant and equipment (cont'd.)

Group (cont'd.)

Carrying amount

	At 1 January 2022 RM'000	Additions RM'000	Disposals RM'000	Reclassi-fication RM'000	Depreciation charge RM'000	Reversal of Impairment RM'000	Exchange differences RM'000	At 31 December 2022 RM'000
Aircraft engines, airframes and service potential	132,629	-	-	-	(21,930)	6,956	3,333	120,988
Aircraft spares	4,416	27,733	(3,467)	-	(7,143)	-	-	21,539
Aircraft fixtures and fitting	16,129	4	-	-	(9,573)	-	-	6,560
Buildings	144,939	130	-	-	(6,083)	-	-	138,986
Motor vehicles	3,119	397	-	-	(849)	-	-	2,667
Office equipment, furniture and fittings	19,656	1,489	(48)	103	(9,610)	-	-	11,590
Office renovation	5,345	516	-	-	(2,504)	-	-	3,357
Simulator equipment	556	-	-	-	(9)	-	-	547
Operating plant and ground equipment	3,801	2,215	(349)	-	(1,461)	-	-	4,206
In-flight equipment	612	-	-	-	(295)	-	-	317
Training equipment	1	37	-	-	(4)	-	-	34
	331,203	32,521	(3,864)	103	(59,461)	6,956	3,333	310,791

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10. Property, plant and equipment (cont'd.)

Group (cont'd.)

At 31 December 2022

	Cost RM'000	Accumulated depreciation RM'000	Accumulated impairment loss RM'000	Carrying amount RM'000
Aircraft engines, airframes and service potential	260,993	(134,198)	(5,807)	120,988
Aircraft spares	28,682	(7,143)	-	21,539
Aircraft fixtures and fittings	147,561	(141,001)	-	6,560
Buildings	176,550	(37,564)	-	138,986
Motor vehicles	13,298	(10,631)	-	2,667
Office equipment, furniture and fittings	163,645	(152,055)	-	11,590
Office renovation	41,670	(38,313)	-	3,357
Simulator equipment	654	(107)	-	547
Operating plant and ground equipment	9,247	(5,041)	-	4,206
In-flight equipment	3,381	(3,064)	-	317
Training equipment	4,380	(4,346)	-	34
	850,061	(533,463)	(5,807)	310,791

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10. Property, plant and equipment (cont'd.)

	At 1 January 2021 RM'000	Additions RM'000	Disposals RM'000	Reclassi-fication RM'000	Depreciation charge RM'000	Reversal of impairment RM'000	Exchange differences RM'000	At 31 December 2021 RM'000
Group (cont'd.)								
Carrying amount								
Aircraft engines, airframes and service potential	170,051	18,179	(39,416)	-	(21,332)	-	5,147	132,629
Aircraft spares	118,379	7,159	(117,370)	-	(20,938)	17,186	-	4,416
Aircraft fixtures and fittings	39,994	122	(8,689)	-	(15,298)	-	-	16,129
Buildings	197,090	2,257	(47,421)	618	(7,605)	-	-	144,939
Motor vehicles	3,636	725	-	-	(1,242)	-	-	3,119
Office equipment, furniture and fittings	39,221	550	(3,682)	233	(16,723)	-	57	19,656
Office renovation	11,780	183	(2,621)	-	(3,997)	-	-	5,345
Simulator equipment	595	-	-	-	(39)	-	-	556
Operating plant and ground equipment	4,112	1,762	(247)	-	(1,826)	-	-	3,801
In-flight equipment	960	-	-	-	(348)	-	-	612
Training equipment	1	-	-	-	-	-	-	1
	585,819	30,937	(219,446)	851	(89,348)	17,186	5,204	331,203

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10. Property, plant and equipment (cont'd.)

	Cost RM'000	Accumulated depreciation RM'000	Accumulated impairment loss RM'000	Carrying amount RM'000
Group (cont'd.)				
At 31 December 2021				
Aircraft engines, airframes and service potential	254,436	(114,850)	(6,957)	132,629
Aircraft spares	4,416	-	-	4,416
Aircraft fixtures and fittings	147,527	(125,592)	(5,806)	16,129
Buildings	176,412	(31,473)	-	144,939
Motor vehicles	13,825	(10,706)	-	3,119
Office equipment, furniture and fittings	172,289	(152,633)	-	19,656
Office renovation	45,233	(39,888)	-	5,345
Simulator equipment	5,381	(4,825)	-	556
Operating plant and ground equipment	15,706	(11,905)	-	3,801
In-flight equipment	3,450	(2,838)	-	612
Training equipment	1	-	-	1
	838,676	(494,710)	(12,763)	331,203

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11. Investment in associates

	2023 RM'000	2022 RM'000	2021 RM'000
Unquoted investments, at cost	64,640	48,803	48,803
Total share of post-acquisition loss	371,131	385,714	405,679
	435,771	434,517	454,482

In 2023, the Group capitalized part of its advances to GTR amounting to RM15,836,986 as consideration for a rights issue by GTR.

The details of the associates are as follows:

Name of entity	Group's effective equity interest 2023 %	2022 %	2021 %	Country of incorporation	Principal activities
Held by AAB					
AirAsia Philippines Inc[f]	39.9	39.9	39.9	Philippines	Dormant
Ground Team Red Holdings Sdn Bhd ("GTRH")[f]	50	50	50	Malaysia	Investment holding

[f] Audited by a firm other than Ernst & Young.

All of the investment in associates are accounted for using the equity method.

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11. Investment in associates (cont'd.)

All associates have the same reporting period as the Group except for GTRH which has a reporting date of 31 March. For the purpose of applying the equity method of accounting for associates, the last audited financial statements available and the management financial statements as at end of the accounting period of the associate were used.

There are no material contingent liabilities relating to the Group's interest in the associates.

Material associates

The directors consider GTRH as material associates to the Group. GTRH has investments in GTR and GTRSG which provide ground handling services in Malaysia and Singapore respectively.

Summarised financial information for associates

The tables below provide summarised financial information for GTRH that is material to the Group. The information disclosed reflects the amounts presented in the financial statements of GTRH and not the Group's share of those amounts. They include adjustments when applying the equity method.

Summarised statements of financial position

		GTRH	
	2023	**2022**	**2021**
	RM'000	**RM'000**	**RM'000**
Non-current assets	806,952	836,060	875,951
Current assets	4	3	3
Current liabilities	(1,326)	(1,267)	(1,228)
Net assets	805,630	834,796	874,726

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11. Investment in associates (cont'd.)

Summarised statements of comprehensive income

	GTRH 2023 RM'000	2022 RM'000	2021 RM'000
Net loss for the financial year, representing total comprehensive loss	(29,166)	(39,930)	(88,260)

Reconciliations of summarised financial information:

	GTRH 2023 RM'000	2022 RM'000	2021 RM'000
Net assets	805,630	834,796	874,726
Group's interest in associates	50%	50%	50%
Interest in associates	402,815	417,398	437,363
Carrying value at 31 December	402,815	417,398	437,363

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12. Investment securities

	2023 RM'000	2022 RM'000	2021 RM'000
Listed equity securities			
At 1 January	32,530	37,098	42,806
Fair value loss			
- recognised in other comprehensive income	74,195	(4,568)	(5,708)
At 31 December	106,725	32,530	37,098
Unlisted equity securities			
At 1 January	122	122	-
Addition during the year	-	-	122
At 31 December	122	122	122
Total	106,847	32,652	37,220

Financial assets at fair value through other comprehensive income comprise investments in equity securities of listed and non-listed companies which were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. The Group holds non-controlling equity interest of 13% (2022 and 2021: 14%) in a listed equity security, AirAsia X Berhad ("AAX"). In addition, the Group also holds non-controlling equity interests of 14% in 1 unlisted equity securities (2022: 14% respectively in 1 unlisted equity securities and 2021: 2% and 14% respectively in 2 unlisted equity securities).

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13. Deferred tax assets

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

	2023 RM'000	2022 RM'000	2021 RM'000
At beginning of year	734,085	738,235	744,635
Recognised in profit or loss (Note 9)	-	-	2,699
Recognised in other comprehensive income	-	-	(9,099)
Disposal of subsidiaries	-	(4,150)	-
At end of year	734,085	734,085	738,235

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

	2023 RM'000	2022 RM'000	2021 RM'000
At beginning of financial year	734,085	738,235	744,635
Credited/(Charged) to income statement			
- property, plant and equipment	2,184	1,711	1,410
- unabsorbed capital allowances	262,481	186,586	(53,884)
- unabsorbed investment tax allowances	(178,020)	(409,181)	32,342
- sales in advance	(686)	63,502	(8,835)
- receivables	-	-	-
- payables	(116,751)	161,531	83,357
- derivatives	-	-	(15,556)
- provisions and others	30,792	(4,149)	(36,135)
	-	-	2,699
Charged to statement of other comprehensive income	-	-	(9,099)
Disposal of subsidiaries	-	(4,150)	-
At end of financial year	734,085	734,085	738,235

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13. Deferred tax assets (cont'd.)

The movements in the deferred tax assets and liabilities of the Group during the financial year are as follows: (cont'd.)

	2023 RM'000	2022 RM'000	2021 RM'000
Deferred tax assets (before offsetting)			
Unabsorbed capital allowances	449,068	186,586	-
Unabsorbed investment tax allowances	80,110	258,130	667,311
Sales in advance	194,182	194,868	131,366
Provisions and others	30,791	-	4,149
	754,151	639,584	802,826
Offsetting	(20,066)	94,501	(64,591)
Deferred tax assets (after offsetting)	734,085	734,085	738,235
Deferred tax liabilities (before offsetting)			
Property, plant and equipment	(20,066)	(22,250)	(23,961)
Payables	-	116,751	(40,630)
	(20,066)	94,501	(64,591)
Offsetting	20,066	(94,501)	64,591
Deferred tax liabilities (after offsetting)	-	-	-

Deferred tax has not been recognised for the following items:

	2023 RM'000	2022 RM'000	2021 RM'000
Provisions and others	512,668	1,392,420	111,101
Unabsorbed capital allowances	1,871,116	1,519,868	1,721,543
Unutilised tax losses	2,120,448	1,347,602	1,347,602
Unutilised investment tax allowances	4,729,037	4,729,037	4,729,037
	9,233,269	8,988,927	7,909,283

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13. Deferred tax assets (cont'd.)

Pursuant to Section 44(5F) of the Income Tax Act 1967 ("the Act"), the unused tax losses can be carried forward until the following year of assessment:

	2023 RM'000	2022 RM'000	2021 RM'000
Unused tax losses can be carried forward until:			
Year of assessment 2030	857,743	857,743	857,743
Year of assessment 2031	453,174	453,174	489,859
Year of assessment 2032	729,037	36,685	-
Year of assessment 2033	80,494	-	-
	2,120,448	1,347,602	1,347,602

As disclosed in Note 3.3, the deferred tax assets are recognised on the basis of the Group's previous history of recording profits, and to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on expected future performance and taxable profits which have been adjusted for non-recurring circumstances and a reasonable growth rate.

Based on the tax rules enacted from Malaysia Finance Act 2021, the time limit for the carry forward of the unutilised tax losses has been extended from 7 years to 10 years. As a result of this change, the unutilised tax losses accumulated up to the YA 2018 are allowed to be carried forward for 10 consecutive years of assessment (i.e. from YA 2019 to 2028) and any balance of the unutilised tax losses thereafter shall be disregarded.

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14. Receivables and prepayments

		2023 RM'000	2022 RM'000	2021 RM'000
Non-current:				
Other receivables	(a)	334,736	340,687	340,687
Less: Allowance for impairment		(334,736)	(340,687)	(340,687)
		-	-	-
Amount due from a related company	(b)	704,275	675,185	608,137
Prepayments	(e)	3,302,130	2,828,591	3,198,836
Deposits	(f)	245,215	363,847	103,048
Less: Allowance for impairment		-	-	(2,833)
		245,215	363,847	100,215
		4,251,620	3,867,623	3,907,188
Current:				
Trade receivables		11,434	53,341	10,512
Other receivables		216,119	358,313	268,006
Less: Allowance for impairment		(21,523)	(84,493)	(15,765)
		194,596	273,820	252,241
Amount due from associates	(d)	350	22,403	59,887
Less: Allowance for impairment		-	-	(43,255)
		350	22,403	16,632
Amount due from related companies	(c)	2,200,000	984,301	692,853
Amount due from related parties	(d)	661,511	726,691	860,207
Less: Allowance for impairment		(364,528)	(250,127)	(565,349)
		296,983	476,564	294,858
Amount due from holding company	(g)	3,803,601	-	210,709
Prepayments	(e)	568,672	68,923	196,135
Deposits	(f)	666,813	275,988	121,186
		7,742,449	2,155,340	1,795,126

(a) Included in non-current other receivables is a receivable of RM334.7 million (equivalent to IDR1.187 billion) arising from the disposal of a perpetual capital security which has been fully impaired in the previous financial year.

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14. Receivables and prepayments (cont'd.)

(b) The non-current amount due from a related company represents a loan to PAA, which is unsecured and bears interest at 6% per annum.

(c) In connection with the proposal to dispose the Group to AirAsia X Berhad as disclosed in Note 31, it is planned that the entire of the amount will be novated to CAB.

(d) The other amounts due from related parties and associates are unsecured, non-interest bearing and have no fixed repayment terms.

(e) Prepayments include advances for purchases of fuel and prepaid engine maintenance to the service provider for the upcoming services being scheduled more than 1 year.

(f) Deposits of the Group at the reporting date are primarily with airports and aviation authorities.

(g) In 2023, the Group sold its proprietary rights to the "AirAsia" brand to its holding company for a consideration of RM4.5 billion. As disclosed in Note 31, subsequent to AirAsia X Berhad ("AAX") acquiring the Company for a cash consideration of RM3,800,000,000, the Company intends to novate this amount due from CAB to AAX, which will be used to offset against the amount due to CAB for the acquisition of the Company. The transaction is expected to be completed within 12 months from the date of this report.

Movements of the expected credit losses of trade and other receivables are as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
At 1 January	675,307	967,889	955,259
Impairment (Note 6)	120,545	67,853	16,097
Reversal (Note 6)	(45,328)	-	-
Write off	(31,413)	(362,476)	-
Exchange differences	1,676	2,041	(3,467)
At 31 December	720,787	675,307	967,889

The ageing analysis of trade receivables is as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
Current	11,197	39,886	426
1 to 90 days	236	8,177	7,614
91 to 120 days	-	5,183	246
121 to 180 days	1	1	492
181 to 365 days	-	94	1,734
Past due but not impaired	237	13,455	10,086
	11,434	53,341	10,512

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14. Receivables and prepayments (cont'd.)

Impairment of trade receivables are recognised based on the simplified approach. Impairment is recognised against trade receivables over their credit period based on estimated amounts determined by reference to past default experience of the counterparty and and analysis of the counterparty's current financial position.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

15. Deposits on aircraft purchase

Deposits on aircraft purchases represent refundable deposits paid for aircraft to be delivered to the Group. These deposits are denominated in US Dollars.

16. Derivative financial instruments

	2022		2021	
	Assets RM'000	**Liabilities RM'000**	**Assets RM'000**	**Liabilities RM'000**
Non-current				
Interest rate swaps				
- held for trading	-	-	-	32,785

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

The Group recognised a gain of RM45.0 million in 2022 and RM32.0 million in 2021 arising from termination of the derivative financial instruments. The fair value changes are attributable to changes in foreign exchange spot and forward rate, changes in yield curve. The method and assumptions applied in determining the fair value of derivatives are disclosed in Note 29(e).

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16. Derivative financial instruments (cont'd.)

	2022		2021	
	Notional amount RM'000	Fair value RM'000	Notional amount RM'000	Fair value RM'000
Interest rate swaps	-	-	688,280	(32,785)

(i) Interest rate contracts

The notional principal amounts of the outstanding interest rate contracts at 31 December 2023 were Nil (2022: Nil; 2021: RM688.2 million).

17. Inventories

	2023 RM'000	2022 RM'000	2021 RM'000
At cost			
Consumables, in-flight merchandise and others	18,757	8,484	9,739

Amount of the inventories recognised in operating expenses of the Group was RM218.0 million (2022: RM112.0 million and 2021: RM1.9 million).

18. Deposits, cash and bank balances

	2023 RM'000	2022 RM'000	2021 RM'000
Deposits with licensed banks	53,611	10,122	8,389
Cash and bank balances	114,880	188,341	419,585
Deposits, cash and bank balances	168,491	198,463	427,974
Deposits with licensed banks with maturity period of more than 3 months	(9,802)	(1,085)	(1,261)
Deposits pledged as securities and restricted cash	(28,579)	(10,116)	(7,128)
Cash and cash equivalents	130,110	187,262	419,585

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18. Deposits, cash and bank balances (cont'd.)

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

	Group		
	2023	**2022**	**2021**
	RM'000	**RM'000**	**RM'000**
Ringgit Malaysia	94,016	43,224	385,187
US Dollar	24,646	70,771	25,676
Chinese Renminbi	5,212	18,171	4,454
Others	44,617	66,297	12,657
	168,491	198,463	427,974

Short-term deposits are placed for varying period of twelve months for both financial years 2023 and 2022 (2021: varying periods of eight days and twelve months) depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The weighted average effective annual interest rates of deposits at the reporting dates are as follows:

	2023	**2022**	**2021**
	%	**%**	**%**
Deposits with licensed banks	2.88	1.97	1.71

19. Trade and other payables and sales in advance

(a) Trade and other payables

	2023	**2022**	**2021**
	RM'000	**RM'000**	**RM'000**
Non-current:			
Other payables	802,108	821,539	394,515
Current:			
Trade payables	806,922	394,916	818,971
Amount due to associates	779	250,678	1,319
Amount due to related companies	859,931	37,872	11,967
Amount due to related parties	409,990	163,630	90,967
Amount due to holding company	11,922	372,443	-
Accrual for fuel	104,773	86,542	54,971
Other payables and accruals	675,867	311,959	788,309
	2,870,184	1,618,040	1,766,504
Total trade and other payables	3,672,292	2,439,579	2,161,019

The current other payables and accruals include accruals for operational expenses and passenger service charge payable to airport authorities.

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19. Trade and other payables and sales in advance (cont'd.)

The amount due to associates relates to amounts owing to TAA which is an associate company of the Group at CAB level in FY2022.

The amounts due to associates and related parties are unsecured, interest free and payable on demand.

The amount due to holding company, CAB, is unsecured and repayable on demand. The carrying amount includes advances owing to the holding company from the RCUIDS issued, amounting to RM822,995,848 which bear interest at 9% and is repayable in demand. This amount has been set off against other transactions with the holding company during the financial year.

(b) Sales in advance

	2023 RM'000	2022 RM'000	2021 RM'000
Current	809,091	810,937	547,690

Sales in advance represents the deferred revenue account triggered upon booking by customers. Amount includes ticket fare, seat fees, baggage fees, inflight meals, merchandise, admin fees, service fees and airport fees. Revenue will only be recognised upon flown, specifically upon closing flight status.

20. Aircraft maintenance provisions and liabilities

	2023 RM'000	2022 RM'000	2021 RM'000
Aircraft maintenance provisions (i)	3,949,299	3,938,433	3,874,241
Aircraft maintenance reserve fund (ii)	1,735,389	1,555,893	1,568,503
	5,684,688	5,494,326	5,442,744
Disclosed as			
Non-current	4,808,533	4,518,073	4,427,352
Current	876,155	976,253	1,015,392
	5,684,688	5,494,326	5,442,744

(i) Aircraft maintenance provisions relate to aircraft held under operating lease arrangements whereby, the Group is contractually obligated to maintain the aircraft during the lease period and to redeliver the aircraft to the lessors at the end of the lease term, in certain pre-agreed conditions. Accordingly, the Group estimates the aircraft maintenance costs required to fulfil these obligations at the end of the lease period and recognise a provision for these costs at each reporting date.

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20. Aircraft maintenance provisions and liabilities (cont'd.)

The movements in the aircraft maintenance provisions of the Group during the financial year are as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
At beginning of year	3,938,433	3,874,241	3,663,928
Arose during the year	500,822	84,715	235,147
Utilised	(505,707)	(36,971)	(35,867)
Exchange movements	15,751	16,448	11,033
At end of year	3,949,299	3,938,433	3,874,241

(ii) Aircraft maintenance reserve funds relate to payments made by the lessee, PAA, IAA and TAA for maintenance activities to be undertaken during the lease period. The Group will reimburse the lessee for agreed maintenance work done as and when incurred. The Group records the amounts received as maintenance reserve funds. At the expiry of the lease term, any excess maintenance reserve is recognised in the profit and loss account.

21. Borrowings

		2023 RM'000	2022 RM'000	2021 RM'000
Current				
Revolving credit	(ii)	7,000	23,760	76,010
Term loans	(i)	140,024	52,941	147,464
Swap creditors loan and deferral	(iii)	-	-	219,896
		147,024	76,701	443,370
Non-current				
Term loans	(i)	1,538,559	1,017,194	510,128
Other facility	(iv)	494,239	447,789	-
		2,032,798	1,464,983	510,128
Total borrowings		2,179,822	1,541,684	953,498

(i) The Group's term loan facilities comprise a RM634 million facility from financial institutions obtained in 2023, a RM330.7 million (equivalent to USD75 million) from a non-financial institution obtained in 2022 and a working capital loan from a non-financial institution amounting to RM626.7 million (equivalent to USD150 million) obtained in 2021.

(ii) The revolving credit is for working capital purposes.

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21. Borrowings (cont'd.)

(iii) In 2021, the Group unwound and restructured its exposure in hedges through financing the commodity hedging contracts settlement either via deferral installment payments or conversion into working capital loan. All derivative contracts were terminated by the end of 2022.

(iv) In 2023, the Group secured an additional Predelivery Payment ("PDP") financing of RM46 million (equivalent to USD10 million) from a non-financial institution.

In 2022, the Group secured a Predelivery Payment ("PDP") financing at a net borrowing amount of RM452.1 million (equivalent to USD102.5 million) from a non-financial institution.

The borrowings are secured by the intellectual property of the "AirAsia" brand, certain proprierty, plant and equipment of the Group, shares in a related company, assignment of rights to take delivery of aircrafts and is guaranteed by the holding Company. The Group sold its proprietary rights to the "AirAsia" brand in 2023 to a related company for a consideration of RM4.5 billion.

	2023 %	2022 %	2021 %
Weighted average interest rate			
Term loans	11.05%	11.97%	9.67%
Revolving credit	7.00%	4.98%	4.24%
Swap creditors loan	-	-	5.87%
Other facilities	10.47%	6.16%	-

The borrowings are repayable as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
Not later than 1 year	147,024	76,701	443,370
Later than 1 year and not later than 5 years	2,032,798	775,982	64,831
Later than 5 years	-	689,001	445,297
	2,179,822	1,541,684	953,498

Total borrowings as at reporting date consist of the following banking facilities:

	2023 RM'000	2022 RM'000	2021 RM'000
Fixed rate borrowings	1,073,521	1,093,895	849,048
Floating rate borrowings	1,106,301	447,789	104,450
	2,179,822	1,541,684	953,498

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21. Borrowings (cont'd.)

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

	2023 Carrying amount RM'000	Fair value RM'000
Term loans	1,066,521	1,057,247
Revolving credit	7,000	7,000
	1,073,521	1,064,247

	2022 Carrying amount RM'000	Fair value RM'000
Term loans	1,070,135	1,055,943
Revolving credit	23,760	23,760
	1,093,895	1,079,703

	2021 Carrying amount RM'000	Fair value RM'000
Term loans	553,142	551,412
Revolving credit	76,010	76,010
Swap creditors loan and deferral	219,896	219,896
	849,048	847,318

The fair values of the floating rate borrowings approximate their carrying amounts.

The fair values of the fixed rate borrowings are based on cash flows discounted using borrowing rates that are reflective of the Group's credit risk at the reporting date, at 7.00% to 9.50% (2022: 6.00% to 9.50%; 2021: 6.00% to 11.75%) per annum. The fair values of fixed rate borrowings are within level 2 of the fair value hierarchy.

22. Leases

Group as a lessee

The Group leases various aircraft, spare engines and land and building. Leases of aircraft and spare engines have a lease term of 2 to 19 years (2022 and 2021: 2 to 19 years) whilst land and building generally have a lease term of 2 to 20 years (2022: 2 to 20 years; 2021: 2 to 20 years).

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22. Leases (cont'd.)

Group as a lessee (cont'd.)

The Group also has certain leases of property, plant and equipment with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption for these leases.

Set out below are the carrying amounts of ROU assets recognised and the movements during the year:

		Aircraft and spare engines RM'000	Land and building RM'000	Total RM'000
As at 1 January 2023		7,760,862	33,683	7,794,545
Additions		460,121	-	460,121
Modifications		(192,728)	-	(192,728)
Termination	(a)	(378,605)	-	(378,605)
Depreciation		(933,813)	(10,552)	(944,365)
Exchange movements		29,579	-	29,579
As at 31 December 2023		6,745,416	23,131	6,768,547
As at 1 January 2022		8,144,325	45,271	8,189,596
Additions		129,768	-	129,768
Modifications		10,970	-	10,970
Depreciation		(947,172)	(11,588)	(958,760)
Reversal of impairment (Note 6)		406,053	-	406,053
Exchange movements		16,918	-	16,918
As at 31 December 2022		7,760,862	33,683	7,794,545
As at 1 January 2021		7,684,306	28,810	7,713,116
Additions		807,158	31,848	839,006
Modifications		849,793	-	849,793
Depreciation		(1,195,664)	(15,387)	(1,211,051)
Exchange movements		(1,268)	-	(1,268)
As at 31 December 2021		8,144,325	45,271	8,189,596

(a) Termination during the financial year is mainly due to 6 aircrafts being novated to related companies.

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22. Leases (cont'd.)

Group as a lessee (cont'd.)

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

	2023 RM'000	2022 RM'000	2021 RM'000
As at 1 January	13,207,438	12,095,940	10,595,099
Additions	1,031,470	409,719	289,267
Accretion of interest	626,516	615,757	573,092
Payments	(1,788,346)	(1,256,577)	(426,984)
Modifications	502,746	708,374	647,428
Exchange movements	523,646	634,225	418,038
As at 31 December	14,103,470	13,207,438	12,095,940
Current	3,459,872	3,220,900	2,719,725
Non-current	10,643,598	9,986,538	9,376,215
	14,103,470	13,207,438	12,095,940

The maturity analysis of lease liabilities are disclosed in Note 29(c).

The following are the amounts recognised in profit or loss:

	2023 RM'000	2022 RM'000	2021 RM'000
Depreciation of right-of-use assets	944,365	958,760	1,211,051
Interest expense on lease liabilities	626,516	615,757	573,092
Expense relating to short-term leases	126,110	116,602	-
Reversal of impairment of right-of-use assets	-	(406,053)	-
Reversal of impairment of finance lease receivables (Note 6)	-	(48,734)	-
Gain/(loss) on lease modifications	(87,185)	316,987	(210,813)
Total amount recognised in profit or loss	1,609,806	1,553,319	1,573,330

The Group had total cash outflows for leases of RM1,788.3 million in 2023, RM1,256.6 million in 2022 and RM427.0 million in 2021. Included in lease liabilities are overdue lease rental payables during the year amounting to approximately RM1,403.0 million in 2023, RM1,666.9 million in 2022 and RM1,570.9 million in 2021.

Modifications represent change in lease terms and consideration of aircraft lease agreements from certain lessors. These modifications are negotiated by the Group to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs.

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22. Leases (cont'd.)

Group as a lessee (cont'd.)

Reversal of impairment on right-of-use assets

In the financial year 2022, the Group reversed impairment loss of amounting to RM406 million on certain right-of-use assets with the recovery of the COVID-19 pandemic. This was recognised in the income statement as other operating income.

The recoverable amount was based on value in use as at 31 December 2021, 31 December 2022 and 31 December 2023, and determined at the level of the CGU of the Group representing the airline business. The recoverable amount of the CGU has been measured based on cash flow projections approved by the management. The airline CGU comprise right-of-use assets and aircraft related property, plant and equipment.

The discount rate applied to the cash flow projections averaged from 13.5% (2022: 10.5%, 2021: 9%). The assumptions used to determine the recoverable amounts include revenue per passenger, load factor, fuel cost, passengers charges and growth rate which may change significantly depending on the recovery of the aviation industry aviation industry in Malaysia, regionally and internationally.

Group as a lessor - finance lease

The Group has classified most of its aircraft subleases as finance leases because the sublease is for the whole of the remaining term of the head lease. During the financial year, the movement on the finance lease receivables are as follows:

	2023 RM'000	**2022 RM'000**	**2021 RM'000**
As at 1 January	2,171,771	1,269,587	1,698,983
New leases entered into during the financial year	1,040,042	458,369	-
Modification	782,659	380,417	8,448
Lease payments received during the financial year	(917,335)	(118,178)	(350,579)
Finance income (Note 8(a))	225,057	53,849	45,230
Reversal Impairment of finance lease receivables (Note 6)	-	48,734	-
Exchange movements	480,852	78,993	(132,495)
As at 31 December	3,783,046	2,171,771	1,269,587
Current	780,452	397,269	545,418
Non-current	3,002,594	1,774,502	724,169
	3,783,046	2,171,771	1,269,587

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22. Leases (cont'd.)

Group as a lessor - finance lease (cont'd.)

Lease income from lease contracts in which the Group acts as a lessor:

	2023 RM'000	2022 RM'000	2021 RM'000
Finance lease			
- Finance income on the finance lease receivables	225,057	53,849	45,230
Operating lease			
- Aircraft operating lease income	179,361	304,819	247,934

23. Share capital and capital contribution

23.1 Share capital

	Group		
	2023 RM'000	2022 RM'000	2021 RM'000
Ordinary shares			
Issued and fully paid up:			
As at 1 January/31 December	2,515,673	2,515,673	2,515,673

The holders of ordinary shares are entitled to receive dividends as and when declared by the Group. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Group's residual assets.

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23. Share capital and capital contribution (cont'd.)

23.2 Capital contribution

Capital contribution relates to ESOS granted by the holding company to certain eligible employees of the Group.

24. Share-based payments

Long Term Incentive Scheme ("LTIS")

On 2 August 2021, the holding company, CAB implemented a LTIS comprising an Employee Share Option Scheme ("ESOS") and a Share Grant Scheme. The establishment of the LTIS, which involves up to 10% of the total number of issued shares of the holding company at any point in time throughout the duration of the LTIS, is for the employees and directors of the Group who are eligible in accordance with the By-Laws governing the LTIS. The LTIS is administered by a committee appointed and duly authorised by the Board in accordance with the By-Laws.

The LTIS will be in force for a period of six (6) years commencing from 2 August 2021 and may be extended for a further period of up to 4 years immediately from the expiry of the first six years.

Employee share option scheme "ESOS"

On 3 August 2021, the holding company granted 159,400,000 share options ("ESOS") pursuant to the LTIS to selected eligible employees and directors of the Group. The ESOS will be vested on a 3 year-cliff vesting, i.e. 100% will be vested on 31 August 2024, subject to the holding company's share price performance. Employees must remain in service for a period of 3 years from the date of grant up to vesting date. The fair value of the ESOS is estimated at the date of grant using a Monte-Carlo simulation model blended with Black-Scholes model, taking into account the terms and conditions on which the ESOS were granted. The model simulates the share price and takes into account historical and expected dividends, risk-free rate, and the share price volatility of the holding company so as to predict the share performance.

The exercise price of the ESOS is RM0.74 which is equal to the 5-day Volume-weighted average market price ("VWAP") of the shares immediately preceding the date of the ESOS award, with a discount of not more than ten per cent (10%). The vesting period and exercise period of the ESOS will be limited to the duration that the LTIS is in force. There is no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

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24. Share-based payments (cont'd.)

The expense recognised for employee services received during the year are as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
Expense arising from equity-settled share-based payment transactions	2,409	2,479	1,033

There were no cancellations or modifications to the award in 2022 and 2021.

Movements during the year

The following table illustrates the number of, and movements in, ESOS during the year.

	2023 '000	2022 '000	2021 '000
Outstanding at 1 January	16,100	27,100	-
Granted during the year	-	-	27,100
Forfeited during the year	(6,000)	(3,800)	-
Other movements	(700)	(7,200)	-
Outstanding at 31 December	9,400	16,100	27,100

The fair value of options granted during the year was RM0.282. The exercise price for ESOS outstanding at the end of the year was RM0.7425.

The following table list the inputs to the model used for the ESOS for the year ended 31 December 2023:

	Share options granted on 3 Aug 2021
Fair value at the measurement date (RM)	0.282
Expected volatility (%)	53.874
Risk-free interest rate per annum (%)	2.242
Expected life of ESOS (years)	6
Model used	Monte-Carlo blended with Black-Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

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25. Other reserves

	Cash flow hedge reserve RM'000	Fair value reserve RM'000	Total RM'000
At 1 January 2023	-	(64,689)	(64,689)
Net change in fair value	-	74,195	74,195
At 31 December 2023	-	9,506	9,506
At 1 January 2022	-	(60,121)	(60,121)
Net change in fair value	-	(4,568)	(4,568)
At 31 December 2022	-	(64,689)	(64,689)
At 1 January 2021	(28,815)	(54,413)	(83,228)
Net change in fair value	37,914	(5,708)	32,206
Deferred tax recognised in other comprehensive income	(9,099)	-	(9,099)
At 31 December 2021	-	(60,121)	(60,121)

26. Commitments

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

	2023 RM'000	2022 RM'000	2021 RM'000
Property, plant and equipment:			
- Approved and contracted for	107,089,416	102,608,980	97,163,376

The approved and contracted for capital commitments for the Group are in respect of aircraft purchase. The future commitments of aircraft purchase are as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
Later than 1 year and not later than 5 years	12,122,544	12,908,493	7,688,395
Later than 5 years	94,966,872	89,700,487	89,474,981
	107,089,416	102,608,980	97,163,376

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27. Significant related companies and related parties transactions

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

Entities listed under investment in associates are considered as related parties. Further, the following party with common shareholders and/or directors are also considered related parties for disclosure purposes.

(i) AirAsia X Berhad
(ii) Tune Insurance Malaysia Berhad
(iii) Queens Park Rangers Holdings Ltd
(iv) Thai AirAsia X Co. Ltd
(v) PT Indonesia AirAsia Extra
(vi) Tune Money International Sdn Bhd

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

Key management personnel are categorised as head or senior management officers of key operating divisions within the Group.

Related party transactions also include transactions with entities that are controlled, jointly controlled or significantly influenced directly or indirectly by any key management personnel or their close family members, where applicable.

	2023 RM'000	2022 RM'000	2021 RM'000
(a) Income:			
Aircraft operating and finance lease income for leased aircraft			
- PT Indonesia AirAsia	34,834	63,580	44,371
- AirAsia Inc (Including Philippines AirAsia Inc)		303	83
- Thai AirAsia X Co. Ltd	100,572	204,447	175,793
- AirAsia (India) Limited	-	-	273
- Teleport Everywhere Pte Ltd	43,955	8,467	886
Brand License Fee			
- AirAsia X Berhad	2,919	5,389	-
- Thai AirAsia X Co. Ltd	10,126	4,180	-
- Philippines AirAsia Inc	94	27,456	-
- Thai AirAsia X Co. Ltd	25,786	-	-

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27. Significant related companies and related parties transactions (cont'd.)

	2023 RM'000	2022 RM'000	2021 RM'000
(a) Income: (cont'd.)			
Support service fees charged to related parties for provision of support services	1,234	1,797	50,800
Commission on travel insurance for passengers charged to Tune Insurance Malaysia Berhad	28,319	15,429	1,230
(b) Other income/(expenses):			
Maintenance reserve fund charged to			
- PT Indonesia AirAsia	35,780	34,554	33,093
- AirAsia Inc (Including Philippines AirAsia Inc)	54,959	1,929	2,931
- Thai AirAsia Co. Ltd	257,507	120,151	46,166
- AirAsia (India) Limited	-	13,967	3,253
Gain on disposal of brand to			
- Capital A Berhad	4,500,000	-	-
Interest charges to			
- AirAsia Inc (Including Philippines AirAsia Inc)	39,283	37,942	35,673
- Ground Team Red Sdn Bhd	829	459	244
Interest on RCUIDS charged by Capital A Berhad	(55,821)	(55,821)	-
Management fees charged by:			
- AASEA Sdn Bhd	(41,888)	(93,023)	(64,186)
- AirAsia Aviation Management Services Sdn Bhd	(22,593)	-	-

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27. Significant related companies and related parties transactions (cont'd.)

	2023 RM'000	2022 RM'000	2021 RM'000
(c) Other income/(expenses): (cont'd.)			
Commission charged by			
- AirAsia Com Travel Sdn Bhd	(177,751)	(114,842)	(18,152)
Service fee charged by			
- Asia Digital Engineering Sdn Bhd	(135,498)	(123,492)	(90,674)
Brand license cost charged by			
- AirAsia Aviation Group Limited	30,538	-	-

28. Financial instruments

	Measured at amortised costs RM'000	Measured at FVOCI RM'000	Total RM'000
31 December 2021			
Financial assets as per statements of financial position			
Investment securities (Note 12)	-	37,220	37,220
Receivables (excluding prepayments and deposits for aircraft maintenance) (Note 14)	2,083,109	-	2,083,109
Deposits, cash and bank balances (Note 18)	427,974	-	427,974
Finance lease receivables (Note 22)	1,269,587	-	1,269,587
Total	3,780,670	37,220	3,817,890

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28. Financial instruments (cont'd.)

	Liabilities at FVTPL RM'000	Other financial liabilities RM'000	Total RM'000
31 December 2021			
Financial liabilities as per statements of financial position			
Borrowings (Note 21)	-	953,498	953,498
Derivative financial instruments (Note 16)	32,785	-	32,785
Trade and other payables (Note 19)	-	2,161,019	2,161,019
Lease liabilities (Note 22)	-	12,095,940	12,095,940
Total	32,785	15,210,457	15,243,242

	Measured at amortised costs RM'000	Measured at FVOCI RM'000	Total RM'000
31 December 2022			
Financial assets as per statements of financial position			
Investment securities (Note 12)	-	32,652	32,652
Receivables (excluding prepayments and deposits for aircraft maintenance) (Note 14)	2,485,614	-	2,485,614
Deposits, cash and bank balances (Note 18)	198,463	-	198,463
Finance lease receivables (Note 22)	2,171,771	-	2,171,771
Total	4,855,848	32,652	4,888,500

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28. Financial instruments (cont'd.)

	Other financial liabilities RM'000	Total RM'000
31 December 2022		
Financial liabilities as per statements of financial position		
Borrowings (Note 21)	1,541,684	1,541,684
Trade and other payables (Note 19)	2,439,579	2,439,579
Lease liabilities (Note 22)	13,207,438	13,207,438
Total	17,188,701	17,188,701

	Measured at amortised costs RM'000	Measured at FVOCI RM'000	Total RM'000
31 December 2023			
Financial assets as per statements of financial position			
Investment securities (Note 12)	-	106,847	106,847
Receivables (excluding prepayments and deposits for aircraft maintenance) (Note 14)	7,211,239	-	7,211,239
Deposits, cash and bank balances (Note 18)	168,491	-	168,491
Finance lease receivables (Note 22)	3,783,046	-	3,783,046
Total	11,162,776	106,847	11,269,623

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28. Financial instruments (cont'd.)

	Other financial liabilities RM'000	Total RM'000
31 December 2023		
Financial liabilities as per statements of financial position		
Borrowings (Note 21)	2,179,822	2,179,822
Trade and other payables (Note 19)	3,672,292	3,672,292
Lease liabilities (Note 22)	14,103,470	14,103,470
Total	19,955,584	19,955,584

29. Financial risk management policies

The Group is exposed to market risk (including fuel price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group uses financial instruments such as fuel swaps, interest rate swaps and caps, and foreign currency forwards to mitigate its financial risks.

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

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

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29. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows: (cont'd.)

(a) Market risk (cont'd.)

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

(i) Interest rate risk

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

Interest rate exposure arises from the Group's floating rate borrowings and is managed by entering into derivative financial instruments. Derivative financial instruments are used, as far as possible and where appropriate, to generate the desired fixed interest rate profile. Surplus funds are placed with reputable financial institutions.

The Group manages its cash flow interest rate risk by entering into a number of immediate interest rate swap contracts and cross currency swap contracts that effectively converts its existing long-term floating rate debt facilities into fixed rate debt (Note 16).

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29. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows: (cont'd.)

(a) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

If interest rate on USD denominated borrowings at 31 December 2023, 31 December 2022 and 31 December 2021 had been 60 basis points higher or lower with all other variables held constant, the impact on the post-tax profit for the financial year and equity, as a result of an increase or decrease in the the interest expense on floating rate borrowings are tabulated below. The impact on post-tax profits are as follow.

		2023 RM'000	2022 RM'000	2021 RM'000
Impact on post tax profits	**+60bps**	10,871	7,811	3,023
	-60bps	(10,871)	(7,811)	(3,023)

Impact on other
The remaining terms of the outstanding interest rate derivative contracts of the Group at reporting date, which are all denominated in USD, are as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
Later than 5 years:			
Interest rate swaps	-	-	688,280

(ii) Foreign currency risk

The Group is exposed to foreign currency exchange risk. These exposures are managed, to the extent possible, by natural hedges that arise when payments for foreign currency payables are matched against receivables denominated in the same foreign currency or whenever possible, by intragroup arrangements and settlements.

As at 31 December 2023, 2022 and 2021, the Group has not hedged any of its USD denominated borrowings.

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29. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows: (cont'd.)

(a) Market risk (cont'd.)

(ii) Foreign currency risk (cont'd.)

	2023 RM'000	2022 RM'000	2021 RM'000
USD/ MYR			
- strengthened 10%	20,434	(18,740)	(36,231)
- weakened 10%	(20,434)	18,740	36,231

(b) Credit risk

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

The Group's exposure to credit risks or the risk of counterparties defaulting arises mainly from various deposits and bank balances, receivables, deposits on aircraft purchase and derivative financial instruments. As the Group does not hold collateral, the maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet. Prepayment for engine maintenance to the service provider are also deemed by the Group as having credit risk in the event counterparties do not fulfill the obligation.

The Directors are of the view that the possibility of non-performance by the majority of these financial institutions is remote on the basis of their financial strength and support of their respective governments. The Group generally has no concentration of credit risk arising from trade receivables.

(c) Liquidity and cash flow risk

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

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29. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows: (cont'd.)

(c) Liquidity and cash flow risk (cont'd.)

The table below analyses the Group's payables, non-derivative financial liabilities, gross-settled and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 1 year RM'000	1-2 years RM'000	2-5 years RM'000	Over 5 years RM'000
At 31 December 2021				
Term loans	157,000	270,276	474,800	29,000
Revolving credit	77,000	-	-	-
Swap creditors loan	220,000	-	-	-
Trade and other payables (Note 19)	1,766,504	394,515	-	-
Lease liabilities	3,182,917	1,393,990	4,244,597	5,442,660
	5,403,421	2,058,781	4,719,397	5,471,660
Net-settled derivatives				
Trading	-	-	-	32,785
At 31 December 2022				
Term loans	52,941	909,386	491,856	-
Revolving credit	23,760	-	-	-
Other facilities	-	417,848	29,941	-
Trade and other payables (Note 19)	1,618,040	821,539	-	-
Lease liabilities	3,271,395	1,458,410	5,056,577	5,733,684
	4,966,136	3,607,183	5,578,374	5,733,684

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29. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows (cont'd.):

(c) Liquidity and cash flow risk (cont'd.)

	Less than 1 year RM'000	1-2 years RM'000	2-5 years RM'000	Over 5 years RM'000
At 31 December 2023				
Term loans	96,898	1,024,793	1,031,191	-
Revolving credit	7,000	-	-	-
Other facilities	-	494,239	-	-
Trade and other payables (Note 19)	2,870,184	802,108	-	-
Lease liabilities	3,468,912	1,995,700	5,987,101	5,495,034
	6,442,994	4,316,840	7,018,292	5,495,034

(d) Capital management

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

In order to optimise the capital structure, or the capital allocation amongst the Group's various businesses, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, take on new debts or sell assets to reduce debt.

The Group's overall strategy remains unchanged from 2021, 2022 and 2023.

Consistent with others in the industry, the Group monitors capital utilisation on the basis of the net gearing ratio. This net gearing ratio is calculated as net debts divided by total equity. Net debts are calculated as total borrowings (including "short term and long term borrowings" as shown in the Group's balance sheet) add lease liabilities less deposit, cash and bank balances.

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29. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows (cont'd.):

(d) Capital management (cont'd.)

The net gearing ratio as at 31 December 2021, 31 December 2022 and 31 December 2023 are as follows:

	2023 RM'000	2022 RM'000	2021 RM'000
Total borrowings (Note 21)	2,179,822	1,541,684	953,498
Lease liabilities (Note 22)	14,103,470	13,207,438	12,095,940
Less: Deposit, cash and bank balances (Note 18)	(168,491)	(198,463)	(427,974)
Net debts	16,114,801	14,550,659	12,621,464
Total equity	(1,504,694)	(5,208,655)	(3,460,239)
Net Gearing Ratio (times)	N/A	N/A	N/A

In the prior financial year, the Group's operations were significantly affected by the COVID-19 pandemic which led to operating losses. The Group has been relying on debt compared to its equity to finance the Group's operations which resulted in a negative net gearing ratio.

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2021, 31 December 2022 and 31 December 2023.

(e) Fair value measurement

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

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29. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows (cont'd.):

(e) Fair value measurement (cont'd.)

Determination of fair value and fair value hierarchy

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2023				
Assets				
Investment securities	106,725	-	122	106,847

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29. Financial risk management policies (cont'd.)

The policies in respect of the major areas of treasury activities are as follows (cont'd.):

(e) Fair value measurement (cont'd.)

The following table presents the Group's assets and liabilities that are measured at fair value. (cont'd.)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2022				
Assets				
Investment securities	32,530	-	122	32,652
31 December 2021				
Assets				
Investment securities	37,098	-	122	37,220
Liabilities				
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	32,785	-	32,785

There is no transfer from Level 1, 2 and 3 during the period.

For fair value measurements categorised within Level 2 and 3 of the fair value hierarchy, the fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Valuation techniques used incorporate assumptions regarding discount rates, profit rate yield curves, estimates of future cash flows and other factors.

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30. Significant event

(i) Outright sale of (1) aircraft spare engine and sale and leaseback of (1) aircraft spare engine

On 18 January 2021, the Group's Board approved the outright sale and sale and leaseback transactions of one (1) A320 neo aircraft spare engine and one (1) A320 ceo aircraft spare engine respectively via AAC to ST Engineering Aerospace Supplies Pte. Ltd.. Pursuant to this, the Group disposed the two (2) aircraft spare engines to AAC for a disposal consideration of USD17.65 million (equivalent to RM71.5 million). These transactions were completed on 22 March 2021.

(ii) Disposal of property, plant and equipment and inventories to ADE

On 27 December 2021, the Group disposed certain property, plant and equipment and inventories to ADE at net book value for a total consideration of RM247 million. The disposal of property, plant and equipment comprise aircraft spares, building and office equipment, furniture and fittings amounting to RM99 million (net of impairment), RM47 million and RM3 million respectively while the disposal of inventories comprise consumables of RM98 million.

(iii) Cybersecurity attack

On 12 November 2022, a cybersecurity breach incident was discovered on some of the Group's redundant and non-critical servers. Although the systems affected were not critical, the Group has taken the necessary measures to resolve and prevent this incident from reoccurring. There were no operational impact arising from this incident.

Further, the Group has duly notified and cooperated with the relevant supervisory authorities upon being aware of the cyber breach. The Group has taken the relevant steps to mitigate the impact of the breach including implementing additional measures to prevent similar incidence in the future. To the best of the Group's knowledge and as at the date of this report, the Group has not been made aware of any pending litigation or claims against the Group relating to the incident.

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30. Significant event (cont'd.)

(iv) Sale and leaseback transaction of up to twelve (12) A321Neo Aircraft and advance payment amounting to USD75 million ("Transaction")

On 14 February 2022, the Group's board approved the Transaction with Avolon Aerospace Leasing Limited ("Avolon"). Pursuant to this, the Group and Avolon entered into an advance payment agreement in relation to twelve (12) A321Neo Aircraft to be assigned and scheduled to be delivered from the third quarter of 2024 through the second quarter of 2025. In May 2022, the Group received the advance payment of USD75 million from Avolon.

31. Subsequent Event

(i) The holding company, Capital A Berhad had on 25 April 2024 entered into the following:

(a) a conditional share sale and purchase agreement with AAG for the 100% equity interest in the Company, for a cash consideration of RM3,800,000,000. The Company intends to novate this amount due from CAB to AAX, which will be used to offset against the amount due to CAB for the acquisition of the Company. The transaction is expected to be completed within 12 months from the date of this report. Subsequently the conditional share sale and purchase agreement with AAG was novated to AAX.

32. Other matters

Litigations involving the Group and Malaysia Airports (Sepang) Sdn Bhd ("MASSB")

In prior years, the Group, received a Writ of Summons and Statement of Claim ("Claim") dated 10 December 2018 and on 31 January 2019, Malaysia Airports (Sepang) Sdn Bhd ("MASSB") filed claims at the High Court of Malaya at Kuala Lumpur, claiming the additional RM23 per Passenger Services Charges ("PSC") which the Group was required to collect effective 1 July 2018.

On 18 July 2019, the Kuala Lumpur High Court, inter alia, allowed MASSB's application for summary judgment against the Group and ordered the Group to pay MASSB:

(a) RM9,395,856.50 in outstanding PSC and RM90,055.50 in outstanding Late Payment Charges ("LPC") for Suit 816; and

(b) RM4,614,329.00 in outstanding PSC and RM40.577.47 in outstanding LPC for Suit 58.

On 22 July 2019, the Group filed appeals in the Court of Appeal against the aforesaid High Court decision.

32. Other matters (cont'd.)

Litigations involving the Group and Malaysia Airports (Sepang) Sdn Bhd ("MASSB") (cont'd.)

On 18 September 2019, the Group paid a sum of RM14 million (being the amounts specified in the Garnishee Show Cause Orders dated 23 August 2019) to MASSB to defray the garnishee execution proceedings. The payment was made by the Group without prejudice to the Group's rights, including the Group's rights in the appeals made in relation to the judgement order dated 18 July 2019 and any connected interlocutory applications.

On 2 October 2019, the Group filed a Writ of Summons at the Kuala Lumpur High Court against MASSB for a sum of RM479.8 million, being loss and damage caused by negligence on the part of MASSB, its servants and/or agents in the management, operation, maintenance and/or provision of airport services and facilities at KLIA2.

Following to above, on 22 January 2021, MASSB filed a supplementary affidavit in an attempt to adduce fresh evidence in these appeals. On 5 February 2021, the Group filed motions to adduce fresh evidence in these appeals. In view of these developments, the hearing proper of the appeals were adjourned, pending the disposal of the Group's motions to adduce fresh evidence and MASSB's supplementary affidavits.

On 24 March 2021, the Court of Appeal allowed the Group's motions to adduce fresh evidence and Supplementary Records of Appeal consisting of the fresh evidence were filed on 5 April 2021 and served on 6 April 2021 .

On 14 April 2021 , the Court of Appeal gave directions for the filing of written submissions and fixed the appeals for:-

(a) e-Review case management on 12 January 2022; and

(b) e-appellate hearing by Zoom on 27 January 2022.

The appeals were heard on 27 January 2022.

On 3 March 2022, the Court of Appeal dismissed the Group's four (4) appeals against the High Court's two (2) summary judgments and two (2) orders dismissing the Group's application to strike out MASSB's claim for outstanding Passenger Service Charges. The appeals were dismissed with costs of RM10,000.00 for each appeal, subject to payment of allocator fee.

On 1 April 2022, the Group filed motions for leave to appeal to the Federal Court against the dismissal of the four (4) PSC Appeals on 3 March 2022 by the Court of Appeal. These applications are fixed for Case Management on 9 May 2022.

On 9 August 2022, the Group jointly agreed with MAASB to discontinue the Federal Court proceedings and the Group filed a notice of discontinuance to that effect. Accordingly, the Federal Court vacated the hearing of the application on 11 August 2022.

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32. Other matters (cont'd.)

Kuala Lumpur High Court Civil Suit No. WA-23NCvC-56-10/2019
AIRASIA BERHAD & AIRASIA X BERHAD V MALAYSIA AIRPORTS (SEPANG) SDN BHD (SY1447)

On 2 October 2019, the Group (together with AAX) filed a Writ of Summons at the Kuala Lumpur High Court against MASSB for a sum of RM479.8 million, being loss and damage caused by negligence on the part of MASSB, its servants and/or agents in the management, operation, maintenance and/or provision of airport services and facilities at KLIA2.

The Group and AAX subsequently filed an amended statement of claim on 23 December 2019 and a reply on 26 December 2019.

The Group and AAX applied for an application to expunge an affidavit filed by MASSB ("Expungement Application") on 12 March 2021. MASSB subsequently applied to strike out the whole suit ("Striking Out Application") and also applied for further and better particulars ("FBP Application") on 30 March 2021. MASSB's FBP Application is held over pending the disposal of the Striking Out Application.

MASSB's Striking Out Application was heard on 14 February 2022. The High Court dismissed the Striking Out Application on 25 March 2022 with costs in the cause.

MASSB lodged an application for further and better particulars ("FBP Application") over the disposal of the Striking Out Application.

At the Case Management on 4 April 2022, the High Court fixed the FBP Application to be heard before the High Court Judicial Commissioner on 22 June 2022. A further case management is scheduled after the hearing takes place.

Through a series of communications between the Group, AAX and MASSB, the parties agreed to discontinue all civil suits between AirAsia and MAHB, which was effected by appropriate filings in court on 9 August 2022. Save for mutual agreement to discontinue the legal proceedings, there was no other settlement agreement entered into by the parties.

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32. Other matters (cont'd.)

Litigation involving AirAsia Digital Sdn Bhd, AirAsia Berhad and Big Pay Pte Ltd.

On 18 November 2021, an arbitration proceedings were commenced against AAD and the Company in Singapore International Arbitration Centre. The claimants are seeking for a buyout of their shares in Big Pay Pte. Ltd. for an amount to be determined. The proceedings are still at an early stage, where the parties are at the discovery stage. The solicitors are of the view that the AAD and the Group have reasonable prospects of successfully defending the claim.

33. Financial Support

CAB has indicated its intention to provide financial support to the Group to meet its liabilities and obligation as and when they fall due and to carry on its business without significant curtailment of operations.

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34. Reconciliation of liabilities arising from financing activities

		Cashflows		Non-cash movement			
	At 1.1.2023 RM'000	Drawdown RM'000	Repayments RM'000	Finance costs RM'000	Addition and modification of leases RM'000	Foreign exchange movement RM'000	At 31.12.2023 RM'000
Borrowings	1,541,684	680,274	(42,136)	178,109	-	(178,109)	2,179,822
Lease liabilities	13,207,438	-	(1,788,346)	626,516	1,534,216	523,646	14,103,470
	At 1.1.2022 RM'000	**Drawdown RM'000**	**Repayments RM'000**	**Finance costs RM'000**	**Addition and modification of leases RM'000**	**Foreign exchange movement RM'000**	**At 31.12.2022 RM'000**
Borrowings	953,498	998,528	(415,730)	152,916	-	(147,528)	1,541,684
Lease liabilities	12,095,940	-	(1,256,577)	615,757	1,118,093	634,225	13,207,438
	At 1.1.2021 RM'000	**Drawdown RM'000**	**Repayments RM'000**	**Finance costs RM'000**	**Addition and modification of leases RM'000**	**Foreign exchange movement RM'000**	**At 31.12.2021 RM'000**
Borrowings	875,452	521,060	(464,819)	69,444	-	(47,639)	953,498
Lease liabilities	10,595,099	-	(426,984)	573,092	936,695	418,038	12,095,940

aviation group

Date: 24 September 2024

The Board of Directors
AIRASIA X BERHAD
RedQ
Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan

Dear Sirs,

PROPOSED ACQUISITION BY AIRASIA X BERHAD OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED ("AAAGL") HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION ("PROPOSED AAAGL ACQUISITION")

On behalf of the Board of Directors of AAAGL ("**AAAGL Board**"), I wish to report that after due enquiries by AAAGL Board in relation to AAAGL for the period between 31 December 2023, being the date to which the last audited consolidated financial statements of AAAGL have been made up, and up to the date of this letter, being a date not earlier than 14 days before the date of the circular to the shareholders of AirAsia X Berhad in relation to, amongst others, the Proposed AAAGL Acquisition, that:-

(i) in the opinion of AAAGL Board, the business of AAAGL and its subsidiaries has been satisfactorily maintained;

(ii) in the opinion of AAAGL Board, there has been no circumstance arisen since the date of the last audited consolidated financial statements of AAAGL which has adversely affected the trading or the value of the assets of AAAGL and its subsidiaries;

(iii) the current assets of AAAGL and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;

(iv) saved as disclosed in Appendix IV of this Circular, there are no contingent liabilities which have arisen by reason of any guarantees or indemnities given by AAAGL and its subsidiaries;

(v) there has been no default or any known event that could give rise to a default situation, on payments of either interest and/or principal sums for any borrowings by AAAGL and its subsidiaries since the date of the last audited consolidated financial statements of AAAGL; and

(vi) saved as disclosed in Appendix IV of this Circular, there has been no material change in the published reserves or any unusual factor affecting the profits of AAAGL and its subsidiaries since the date of the last audited consolidated financial statements of AAAGL.

Yours faithfully,
For and on behalf of the Board of Directors of
AIRASIA AVIATION GROUP LIMITED

TAN SRI JAMALUDIN BIN IBRAHIM	**THARUMALINGAM A/L KANAGALINGAM**
Independent Non-Executive Chairman	Director and Chief Executive Officer

AirAsia Aviation Group Limited
Company No. LL03901

Principle Place of Business:
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur (klia2)
64000 KLIA, Selangor, Malaysia

Registered Address:
Level 5(A), Main Office Tower
Financial Park Labuan Complex, Jalan Merdeka
87000 Federal Territory of Labuan, Malaysia

AirAsia Berhad
[Company No: 199301029930 (284669-W)]
RedQ, Jalan Pekeliling 5, Lapangan Terbang
Antarabangsa Kuala Lumpur (klia2)
64000 KLIA, Selangor Darul Ehsan
Malaysia
T: +6 (0)3 8660 4600

Date: 24 September 2024

The Board of Directors
AIRASIA X BERHAD
RedQ
Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan

Dear Sirs,

PROPOSED ACQUISITION BY AIRASIA X BERHAD OF 100% EQUITY INTEREST IN AIRASIA BERHAD ("AAB") HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,800.00 MILLION ("PROPOSED AAB ACQUISITION")

On behalf of the Board of Directors of AAB ("**AAB Board**"), I wish to report that after due enquiries by AAB Board in relation to AAB for the period between 31 December 2023, being the date to which the last audited consolidated financial statements of AAB have been made up, and up to the date of this letter, being a date not earlier than 14 days before the date of the circular to the shareholders of AirAsia X Berhad in relation to, amongst others, the Proposed AAB Acquisition, that:-

(i) in the opinion of AAB Board, the business of AAB and its subsidiaries has been satisfactorily maintained;

(ii) in the opinion of AAB Board, there has been no circumstance arisen since the date of the last audited consolidated financial statements of AAB which has adversely affected the trading or the value of the assets of AAB and its subsidiaries;

(iii) the current assets of AAB and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;

(iv) saved as disclosed in Appendix V of this Circular, there are no contingent liabilities which have arisen by reason of any guarantees or indemnities given by AAB and its subsidiaries;

(v) there has been no default or any known event that could give rise to a default situation, on payments of either interest and/or principal sums for any borrowings by AAB and its subsidiaries since the date of the last audited consolidated financial statements of AAB; and

(vi) saved as disclosed in Appendix V of this Circular, there has been no material change in the published reserves or any unusual factor affecting the profits of AAB and its subsidiaries since the date of the last audited consolidated financial statements of AAB.

Yours faithfully,
For and on behalf of the Board of Directors of
AIRASIA BERHAD

DATO' CAPTAIN FAREH ISHRAF MAZPUTRA AHMAD FAIRUZ	**RIAD ASMAT**
Director	Director

MAH-KAMARIYAH & PHILIP KOH
ADVOCATES & SOLICITORS • NOTARY PUBLIC

Date	:	23 September 2024
Our Reference	:	CORP/2022.108/AKYY/KPY/JT/LHY
Your Reference	:	

AIRASIA X BERHAD **BY EMAIL**
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor

Attention: The Board of Directors

Dear Sirs,

REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS OF THE FEDERAL TERRITORY OF LABUAN ("LABUAN") AND MALAYSIA

PROPOSED ACQUISITION BY AIRASIA X BERHAD ("AAX" OR "COMPANY") OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED ("AAAGL") HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX AT AN ISSUE PRICE OF RM1.30 EACH ("PROPOSED AAAGL ACQUISITION")

1. INTRODUCTION

1.1 We act as Malaysian legal advisers to AAX in relation to the Proposed AAAGL Acquisition and in particular, we have been instructed to provide a report on the policies on foreign investments, taxation and repatriation of profits of Labuan and Malaysia in connection with the Proposed AAAGL Acquisition ("**Report**").

1.2 This Report has been prepared by us solely for the purposes of inclusion in AAX's circular to shareholders to be issued by AAX to seek its shareholders' approval for, amongst others, the Proposed AAAGL Acquisition ("**Circular**").

2. ASSUMPTIONS AND QUALIFICATIONS

2.1 This Report relates only to the laws of general application in Malaysia (and in particular Labuan) as at the date of this Report and we have made no investigation of, and do not express any views on, the application of the laws of any other country other than Malaysia.

2.2 In reporting on the matters set out in this Report, we also express no opinion as to any subsequent change in the relevant laws of Malaysia and Labuan, which comes into effect after the date hereof. As such, we shall have no obligation to update this Report from time to time to reflect any such change to relevant laws of Malaysia and Labuan.

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* Also at: Johore Bahru (Wisma S P Setia Indah Walk Office)
* & Muar (Mega Commercial Centre Office)
* Please quote our reference when replying
* Working hours 8:30 a.m. to 5:30 p.m., Mondays to Fridays

2.3 This Report does not address, or purport to address in any detail, items and matters dealt with in any report made by any accountants, valuers, quantity surveyors or other advisers or experts (if any) in connection with the Proposed AAAGL Acquisition. This Report only relates to the legal aspects and does not apply by implication to other matters and, in particular, does not include the commercial aspects involving the Proposed AAAGL Acquisition and the adequacy of the steps and verification taken.

2.4 The statements made in this Report with regard to taxation are general in nature and are based on certain aspects of the tax laws of Malaysia and Labuan and guidelines issued by the relevant authorities in Malaysia and Labuan in force as at the date of this Report and subject to any changes in relevant tax laws and guidelines, or in the interpretation of the law or guidelines, occurring after such date, which changes could be made on a retrospective basis. The statements made in this Report are also not regarded as advice on the tax position of any person or on any tax implications arising from the Proposed AAAGL Acquisition. Further, the statements made in this Report do not purport to be a comprehensive or exhaustive description of all the tax considerations which may be relevant to the Proposed AAAGL Acquisition and do not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. As such, the shareholders of the Company are advised to consult their own tax advisers on the tax consequences of the Proposed AAAGL Acquisition.

2.5 This Report is furnished to the Company by us as Malaysian legal advisers in connection with the Proposed AAAGL Acquisition and is solely for the Company's benefit. This Report is not to be used, quoted or otherwise referred to for any other purpose, save that a copy of this Report is permitted to be disclosed to Bursa Malaysia Securities Berhad ("**Bursa Securities**") and to be enclosed in the Circular. This Report also does not constitute a recommendation to any shareholders of the Company as to how any shareholder of the Company should vote in respect of the Proposed AAAGL Acquisition.

2.6 In providing this Report, we have assumed the accuracy, validity and completeness of the background facts/circumstances set out in this Report and that there are no facts material to our Report herein which we are unaware. We also express no findings or opinion in this Report about factual matters.

3. REPORT

Policies on foreign investment in Labuan and Malaysia

3.1 As at the date of this Report, there is generally no legislative framework restricting or prohibiting foreign investment in Labuan-incorporated companies. Accordingly, there are no restrictions or prohibitions under Labuan laws or the laws of Malaysia against AAX, being an entity incorporated under the Companies Act 1965 and is deemed registered under the Companies Act 2016, to acquire and hold all the issued shares in AAAGL, being a company incorporated in Labuan, and there are also no restrictions or prohibitions insofar as the laws and regulations of Labuan are concerned prohibiting foreign investment by any person in AAAGL.

Policies on taxation

3.2 A Labuan company is a company incorporated under the Labuan Companies Act 1990, and although Labuan is a Federal Territory of Malaysia, a Labuan company conducting Labuan business activities enjoys certain preferential tax exemptions and rates under the Labuan Business Activity Tax Act 1990 ("**LBATA**").

3.3 Labuan Business Activity Tax Act 1990

3.3.1 Definitions

For the purpose of the LBATA –

(a) a "Labuan business activity" means a Labuan trading or a Labuan non-trading activity carried on in, from or through Labuan, excluding any activity which is an offence under any written law;

(b) a "Labuan trading activity" includes banking, insurance, trading, management, licensing, shipping operations or any other activity which is not a Labuan non-trading activity; and

(c) a "Labuan non-trading activity" means an activity relating to the holding of investments in securities, stock, shares, loans, deposits, or any other properties situated in Labuan by a Labuan entity on its own behalf.

3.3.2 Labuan business activity

Pursuant to Section 3[(1)] of the LBATA, subject to the LBATA, a Labuan entity carrying on a Labuan business activity shall be charged to tax in accordance with the LBATA for each year of assessment in respect of that Labuan business activity.

**Note:*

(1) Pursuant to Sections 79 and 81(a) of the Finance (No. 2) Act 2023, Section 3 of the LBATA is amended by renumbering the existing Section 3 of the LBATA as Section 3(1) of the LBATA and the amendment shall have effect for the financial year beginning on 1 January 2025 and subsequent financial years.

3.3.3 Labuan trading activity

Pursuant to Section 4 of the LBATA, a Labuan entity carrying on a Labuan trading activity shall be taxed at a rate of 3% for a year of assessment upon the chargeable profits which shall be the net profits as reflected in the audited accounts of such Labuan entity for the basis period for that year of assessment.

Section 4(3) of the LBATA further provides that the net profits shall not include any income derived from royalty and other income derived from an intellectual property right if it is receivable as consideration for the commercial exploitation of that right as it will be subject to tax under the Income Tax Act 1967 ("**ITA**") instead.

For the purpose of the LBATA, a Labuan entity which carries on both a Labuan trading activity and a Labuan non-trading activity will be deemed as a Labuan entity carrying on a Labuan trading activity.

3.3.4 Labuan non-trading activity

Section 9(1) of the LBATA provides that notwithstanding Section 3[(1)] of the LBATA, the profits of a Labuan entity carrying on a Labuan business activity which is a Labuan non-trading activity for the basis period for a year of assessment shall not be charged to tax under the LBATA for that year of assessment.

**Note:*

(1) Pursuant to Sections 79 and 82 of the Finance (No. 2) Act 2023, Section 9(1) of the LBATA is amended by substituting for the words "section 3" to the words "subsection 3(1)" and the amendment shall have effect for the financial year beginning on 1 January 2025 and subsequent financial years.

3.3.5 Non-Labuan business activity

Pursuant to Section 2(3) of the LBATA, the provisions of the ITA shall apply in respect of an activity other than a Labuan business activity carried on by a Labuan entity.

3.3.6 Labuan business activity chargeable to ITA upon election

Section 3A of the LBATA provides that a Labuan entity carrying on a Labuan business activity may make an irrevocable election in the prescribed form that any profit of the Labuan entity for any basis period for a year of assessment and subsequent basis period is to be charged to tax in accordance with the ITA instead of under the LBATA. In the event of an irrevocable election, the exemptions under the LBATA no longer apply to the Labuan entity making the election, and the provisions of the ITA will apply.

3.3.7 Substance requirements

There have also been various significant changes made to the Labuan tax regime in recent years and one of the major changes is the introduction of substance requirements for Labuan entities, which took effect from 1 January 2019.

In regard to the substance requirements for Labuan entities, Section 2B of the LBATA provides that Labuan entities shall, for the purpose of Labuan business activities –

(a) in relation to a Labuan trading activity:

(1) have an adequate number of full-time employees in Labuan; and

(2) have an adequate amount of annual operating expenditure in Labuan;

and

(b) in relation to a Labuan non-trading activity:

(1) have an adequate number of full-time employees in Labuan;

(2) have an adequate amount of annual operating expenditure in Labuan; and

(3) comply with any condition in relation to control and management in Labuan.

In addition to this, the Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2021 further provides, amongst others, the list of activities which are deemed as a Labuan trading activity or a Labuan non-trading activity.

A Labuan entity carrying on any Labuan business activity which fails to comply with the regulations as stated above shall be subject to tax at the rate of 24% on its chargeable profits for a relevant year of assessment.

3.3.8 Withholding tax

Pursuant to paragraph 3 of the Income Tax (Exemption) (No. 22) Order 2007 issued in exercise of the powers conferred under Section 127(3)(b) of ITA, withholding tax in respect of, amongst others, the following items are exempted:

(a) dividends received by an offshore company;

(b) dividends received from an offshore company which are paid, credited or distributed out of income derived from an offshore business activity or, income exempt from tax;

(c) royalties received from an offshore company by a non-resident person or another offshore company;

(d) interest received from an offshore company by a non-resident person (other than interest accruing to a business carried on by a non-resident person in Malaysia where that non-resident person is licensed to carry on business under the Financial Services Act 2013 ("**FSA**") and the Islamic Financial Services Act 2013 ("**IFSA**"));

(e) interest received from an offshore company by a resident person (other than a person licensed to carry on business under the FSA and the IFSA); and

(f) amounts received from an offshore company by a non-resident person or another offshore company, in consideration of services, advice or assistance specified in

Sections 4A(i) and (ii) of the ITA.

Hence, any dividends, royalties, interest, and consideration for specific services paid by a Labuan company to a non-resident person or another Labuan company are not subject to withholding tax under the ITA.

3.3.9 Indirect taxes

As Labuan is considered a designated area, Labuan entities are typically exempted from sale tax and services tax in Malaysia unless otherwise provided under certain provisions of the Sales Tax Act 2018 and the Services Tax Act 2018.

With regard to sales tax, the Sales Tax Act 2018 stipulates that sales tax does not apply to certain designated areas and special areas, including Labuan, and sales tax does not apply to taxable goods manufactured in Labuan other than petroleum.

However, where taxable goods are transported from Labuan to the rest of Malaysia (excluding designated areas and special areas as prescribed in Sales Tax Act 2018) or from the rest of Malaysia (excluding designated areas and special areas as prescribed in Sales Tax Act 2018) to Labuan, sales tax shall apply as if such goods were imported into, or exported from, Malaysia from or to a place outside Malaysia.

In relation to service tax, the Service Tax Act 2018 provides that service tax does not apply to Labuan. Furthermore, no service tax is charged on any taxable service provided within Labuan. However, service tax is chargeable where the services are provided by (i) any person whose principal place of business is located in Labuan for any taxable service provided by him within the rest of Malaysia (excluding designated areas and special areas as prescribed in Service Tax Act 2018) and (ii) any registered person whose place of business is located in the rest of Malaysia (excluding designated areas and special areas as prescribed in Service Tax Act 2018) who provides any taxable service to Labuan.

3.3.10 Labuan Business Activity Tax (Amendment) Act 2024

On 20 May 2024, the Labuan Business Activity Tax (Amendment) Act 2024 which provides amendment to Section 22DA of the LBATA was published in the Malaysian government gazette. Following thereto, Section 22DA of the LBATA requires an electronic commerce platform provider to issue a self-billed invoice in accordance with the conditions and specifications as determined by the Director General of Inland Revenue with effect from 1 January 2024.

3.4 Malaysian Income Tax Act 1967

In the event that a Labuan entity carrying on Labuan business activity has elected to be taxed under the ITA under Section 3A of the LBATA, the provisions of the ITA relating to corporate income tax shall apply.

In general, corporate income tax is imposed on income accruing in or derived from Malaysia. Whilst the standard corporate tax rate is 24%, the rate for resident small and medium sized companies (i.e. companies incorporated in Malaysia with paid-up capital of RM2.5 million or less and gross income from business of not more than RM50 million) is 17% on the first RM600,000.00, with the balance being taxed at the prevailing tax rate of 24%.

Policies on repatriation of profits

3.5 Pursuant to the Declaration on Entities Created, Incorporated, etc. in Labuan issued by Bank Negara Malaysia ("**BNM**") on 28 June 2013, all Labuan entities (save for a Labuan entity which carries on Labuan banking business or Labuan insurance or takaful business) are deemed as non-residents for the purposes of Sections 214 and 215 of the FSA and Sections 225 and 226 of the IFSA as well as the Foreign Exchange Policy Notices issued by BNM on 1 June 2022 ("**FEP Notices**").

3.6 In general, the relevant rules under the FEP Notices which are applicable to non-residents are as follows:

3.6.1 Investing in Malaysia

(a) Non-residents are free to undertake investments in a Ringgit Asset[(1)] or foreign currency asset in Malaysia, either as direct or portfolio investments without any restrictions.

(b) Non-residents are also free to repatriate divestment proceeds, profits, dividends or any income arising from investments in Malaysia provided that it is made in foreign currency.

3.6.2 Opening and maintaining of foreign currency and RM accounts

Non-residents are free to open and maintain foreign currency accounts and RM accounts with licensed onshore banks in Malaysia. The funds in these accounts are free to be remitted into and out of such accounts, subject to normal due diligence process by the licensed onshore bank and conversion into foreign currency for repatriation abroad.

3.6.3 Issuance of securities by non-resident

(a) Non-residents are allowed to issue a security denominated in foreign currency in Malaysia to any person.

(b) However, in respect of issuance of RM securities in Malaysia, a non-resident requires approval from BNM to issue any amount of RM securities, including initial public offering by non-residents on Bursa Securities.

3.6.4 Repatriation of funds by non-resident

A non-resident is allowed to repatriate from Malaysia, funds including any income earned or proceeds from divestment of Ringgit Asset[(1)], provided that:

(a) the repatriation is made in foreign currency; and

(b) the conversion of RM into foreign currency is undertaken in accordance with the relevant rules under the FEP Notices.

**Note:*

*(1) Under the FEP Notices, "**Ringgit Asset**" is defined as –*

(I) RM-denominated securities or Islamic securities issued in Malaysia by a resident;

(II) RM-denominated securities or Islamic securities issued by a non-resident as approved in writing by BNM;

(III) RM-denominated financial instrument or Islamic financial instrument as approved in writing by BNM;

(IV) RM deposit with a financial institution in Malaysia including deposit-like instrument with only RM delivery at the inception and maturity; or

(V) any property in Malaysia.

MAH-KAMARIYAH & PHILIP KOH

The matters set out in this Report are reported on and as at the date of this Report.

Yours faithfully
for and on behalf of
MAH-KAMARIYAH & PHILIP KOH

Adrian Koh Yeow York
Partner
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CHANDLER MHM

Chandler MHM Limited
17th and 36th Floors, Sathorn Square Office Tower
98 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand
Tel: +66-2-009-5000

Date: 18 September 2024

To: The Board of Directors
AirAsia X Berhad
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan
Malaysia

Re: REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS OF THAILAND

Dear Sirs,

1. **INTRODUCTION**

We, Chandler MHM Limited, act as a Thai legal counsel to AirAsia X Berhad ("**AAX**"), and were requested to provide a report on policies on foreign investments, taxation and repatriation of profits of Thailand and issue this report solely for your benefit in connection with AAX's circular to shareholders ("**Circular**") in respect of, amongst others, the proposed acquisition by AAX of 100% equity interest in AirAsia Aviation Group Limited ("**AAAGL**") from Capital A Berhad resulting in an indirect acquisition of (i) Asia Aviation Public Company Limited ("**AAV**"), (ii) Thai AirAsia Co., Ltd. ("**TAA**") and (iii) Asia Aviation Center Co., Limited ("**AACCL**") (collectively, referred to as the "**Thai Target Group**"), all of which are companies incorporated under Thai law ("**Proposed AAAGL Acquisition**").

2. **POLICIES ON FOREIGN INVESTMENTS**

The Foreign Business Act ("**FBA**") is the key legislation which regulates the operation of businesses in Thailand by foreign individuals and legal entities which are defined as "foreigners" under the FBA as follows:

(a) a natural person who does not have Thai nationality;

(b) a juristic person not registered in Thailand;

(c) a juristic person registered in Thailand having half or more of its capital shares held by persons or juristic persons as mentioned in sub-paragraphs (a) or (b) above; or

(d) a juristic person registered in Thailand having half or more of its capital shares held by persons as mentioned in sub-paragraphs under (a), (b) or (c) above.

Under the FBA, foreigners are prohibited and restricted from conducting certain restricted businesses as listed under the FBA, including amongst others, undertaking most non-manufacturing businesses, retails, wholesales and providing almost all type of services, unless exempted otherwise or granted with a foreign business license and/or a foreign business certificate under the relevant laws, including but not limited to, the Investment Promotion Act or the Industrial Estate Authority of Thailand Act or an exemption under any international treaty.

As TAA holds 99.99% of shares in AACCL and TAA's shares are 99.99% owned by AAV and AAAGL's ownership in AAV are limited to approximately 40.71% of AAV's issued shares, the operations of the current business activities of the Thai Target Group shall not be limited by the FBA after the Proposed AAAGL Acquisition.

3. POLICIES ON TAXATION

Corporate income tax ("CIT")

CIT at the standard rate of 20% is levied on net profits on juristic entities, namely, companies or partnerships incorporated under Thai or foreign laws. A Thai company is subject to tax on income from sources inside Thailand and on foreign-sourced income. Foreign companies are subject to tax only on income derived from sources in Thailand.

In general, Thailand does not impose a separate tax on corporate capital gains. Any gains arising from disposition of assets, regardless of the purpose for which the assets were acquired, shall be treated as ordinary income subject to CIT.

Limited companies organized under Thai law are not required to include any dividends received from another Thai company as revenue, as long as the recipient company has held at least 25% of the total shares with voting rights, without any cross-shareholding by the paying company, for at least three months before and three months after the dividend is paid.

In the case of the sale of shares, if the sale of Thai shares by a foreign shareholder is made to a non-Thai buyer, and the terms of the sale contract are concluded outside Thailand, and the consideration for the shares is paid outside Thailand, the transaction is considered as an "offshore transaction", and there should be no Thai income tax implication in that case.

Tax losses can be carried forward for five tax years. A change of the shareholders of a company does not affect the tax losses.

There is no group relief or group taxation, thin-capitalization or controlled foreign company rules in Thailand.

Transfer Pricing

Generally, the transfer pricing pertains to the prices charged by related group entities when transferring raw materials, products, intellectual property, and services among themselves. The Thai tax authorities are concerned that, due to their relationship, such transactions might be carried out under terms and prices that do not reflect market transactions at arm's length.

In 2018, Thailand introduced transfer pricing provisions into the income tax law which came into effect on 1 January 2019, which requires Thai tax entity with a total revenue of not less than THB 200,000,000 in an accounting year to submit a transfer pricing disclosure form together with its income tax return and audited financial statement to the Revenue Department ("**RD**") within 150 days (or 158 days for online filing) from the closing date of an accounting period.

According to the transfer pricing measure, an enterprise is required to adhere to the arm's length principle when conducting a business transaction between the group companies. This means that the price or transaction value must be offered within the framework of normal market conditions – as would be the case for independent companies. In case of doubt, the price or transaction value should be used as a comparable benchmark.

If a transaction between the group companies is not deemed to be conducted at arm's length, the RD has the power to make an adjustment to the income and/or expenses of the taxpayer concerned.

Personal Income Tax ("PIT")

Generally, income earned by an individual in Thailand is subject to PIT regardless of whether such income is paid inside or outside of Thailand. Additionally, income earned by an individual outside Thailand from property or an employer located in Thailand is subject to PIT. Income earned abroad by a person who has resided in Thailand for at least 180 days during the relevant calendar year is subject to Thai PIT only to the extent that such income is brought into Thailand during that calendar year.

The Thai PIT is imposed on net income. Certain deductions and allowances are allowed in the calculation of the taxable income. Taxpayer shall make deductions from assessable income before the allowances are granted.

Taxpayers are subject to a personal allowance of THB 60,000. There are special rules for calculating deductions for other types of income earned by individuals.

Thai personal income tax is imposed on an individual's net income at a progressive rate ranging from 5-35%.

Value added tax ("VAT")

VAT is chargeable on a wide range of goods and services supplied in Thailand and also on the importation of goods. As a general consumer expenditure tax, the basic principle of VAT is to charge tax at each stage of production, allowing each supplier credit for the tax paid, so that the VAT eventually impacts the final consumer.

Taxable supplies attract VAT at either the standard rate of 7% or at 0%. The zero percentage applies to exports. For export services, the zero rate will apply to the portion of the services that are provided to, and made use of, outside Thailand and 7% VAT will apply to the portion of services that are used in Thailand. Certain supplies are exempt from VAT, for example, unprocessed agricultural products, newspapers, magazines, textbooks, health care services, educational services, auditing services, rent of immovable property and internal transport by land.

As of the date of this report, the rate of 7% is a reduced rate from a standard rate of 10% for a temporary period under a special Royal Decree, which shall be effective until 30 September 2024. However, it is important to note that this temporary reduction has been in place since 1997, with no indication from the government that the rate will revert to the original rate of 10% in a foreseeable future.

Withholding tax ("WHT")

WHT on domestic payments

The Revenue Code requires a company making domestic payments of assessable income to individuals and corporations to withhold and remit to the RD a portion of such payments. The rate of withholding varies depending on the classification of the income, the identity of the payer and payee, and whether the payment is made in Thailand or is remitted abroad.

WHT on foreign payments

For payments remitted abroad, the withholding requirements vary depending upon the nature of the income and whether a Double Taxation Agreement ("**DTA**") might apply to the payment.

Dividend withholding tax

Dividends paid by a Thai limited company to its shareholders are subject to 10% WHT. There is no reduction available under most DTAs to which Thailand is a signatory including the DTA with Malaysia.

Capital gain withholding tax

In the case where a foreign shareholder sells shares of a Thai limited company to a Thai buyer, the Thai buyer is required to deduct 15% of the seller's gains and remit such tax to the RD. This requirement to withhold tax on a foreign seller's gain may be relieved by the terms of the applicable DTAs entered into between Thailand and other countries.

Stamp duty

A number of documents and transactions listed in the Stamp Duty Schedule of the Revenue Code are subject to stamp duty. The rates depend upon the class of instruments, but in general are between 0.05% and 1%, although for certain instruments the stamp duty is capped, e.g., for loan documents the stamp duty is capped at THB 10,000.

Specific Business Tax ("SBT")

Certain business activities in Thailand are exempt from VAT, but are instead subject to SBT. Unlike VAT, SBT is paid by the business engaged in the activity, not by its customers, although in some commercial transactions the SBT can be passed on to the customer by contract.

SBT rates are subject to the nature of business activities, for banking and real estate companies, SBT is imposed at an effective rate of 3.3%. However, the SBT on transactions similar to commercial banking and the sale of immovable properties may apply to any company or individual in Thailand, whereby SBT could apply on interest income earned from a related party loan or from the sale of real property.

Land and Building Tax

The tax rate for land and buildings differs for natural person and juristic person, the rate is also determined by the price of the property and its actual usage, with a maximum of 0.7% of the property's value for vacant or unused lands. This rate increases by 0.3% every three years that the lands and/or buildings remain vacant or unused, up to a maximum of 3%.

4. **POLICIES ON REPATRIATION OF PROFITS OR RETURN OF CAPITAL**

As a general rule under the Exchange Control Act ("**ECA**"), a repatriation of profits or return of capital to recipients located outside of Thailand must undergo a conversion to foreign currency as it is not allowed to remit Thai Baht out of Thailand.

Based on the notification issued under the ECA, a currency conversion for repatriation generally does not require approval from the Bank of Thailand unless the purpose of such repatriation is specifically listed in the negative list announced by the Bank of Thailand. Pursuant to the current negative list announced by the Bank of Thailand, a repatriation of profits or returns of capital does not require an approval from the Bank of Thailand. However, subject to the internal regulations of the various authorized commercial banks undertaking the foreign currency exchange, specific documents in relation to the payments may be requested by the relevant authorized commercial bank in charge of the conversion and remittance process.

Please note that certain repatriations of profits or returns of capital must be made with the deduction of applicable withholding tax in accordance with the Revenue Code.

5. **CURRENT POLITICAL SITUATION IN THAILAND**

Based on news and public information available to us as of the date of this report, we do not reasonably anticipate that the current political situation in Thailand will have any material adverse effects on the financial condition, assets and business of the Thai Target Group.

Yours faithfully,

Chandler MHM Limited

CHANDLER MHM LIMITED

OCAMPO& SURALVO
ANTONIO · AURELLANO
LAW OFFICES

Date: 19 September 2024

AIRASIA X BERHAD
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor, Malaysia

<u>Attention: The Board of Directors</u>

REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS OF THE PHILIPPINES

PROPOSED ACQUISITION BY AIRASIA X BERHAD ("AAX") OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED ("AAAGL") HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX AT AN ISSUE PRICE OF RM1.30 EACH ("PROPOSED AAAGL ACQUISITION")

Dear Sirs,

We act as the Philippines legal advisers to AAX in relation to the Proposed AAAGL Acquisition and in particular, we have been instructed to provide a report on the policies on foreign investments, taxation and repatriation of profits of the Philippines in connection with the Proposed AAAGL Acquisition ("**Report**").

This Report has been prepared by us solely for the purposes of inclusion in AAX's circular to shareholders to be issued by AAX to seek its shareholders' approval for, amongst others, the Proposed AAAGL Acquisition ("**Circular**").

We are qualified Philippine attorneys at law, qualified to advise on matters governed by the laws of the Philippines, and such qualification has not been revoked or suspended.

I. Policies on foreign investments and repatriation of profits

The Philippines has a liberal foreign investment regime which is protected by the Philippine Constitution and various Philippine laws. The repatriation of profits and capital by foreign investors is protected by Philippines investment laws and Philippines treaty commitments.

A. The Philippine Constitution

Section 20, Article II of the Philippine Constitution states that: *"The State recognizes the indispensable* role *of the private sector, encourages private enterprise, and provides incentives to needed investments."* The Philippine Constitution protects foreign investments by limiting the ability of the Philippines to take private property, and by giving strict protection to lawful contracts.

1. Limits of the power to expropriate

The Philippines exercises the inherent power of eminent domain which refers to the authority of the Philippines to take private property for public use without the owner's consent, conditioned upon the payment of just compensation. This restrains the Philippines' authority to exercise its power to expropriate by requiring that any such taking be justified for public use and for adequate consideration. Any entity authorized to exercise the power to expropriate property must do so under a court-led process. This is accomplished by filing a complaint under Rule 67 of the Rules of Civil Procedure. As a rule, any such entity initiating the expropriation case shall only have the right to take or enter upon the possession of the property if it deposits with an authorized government depositary amounts that approximate the value of the assets. For real property, the amount is the assessed value of the property for purposes of taxation. For personal property, the amount shall be provisionally ascertained by the court of the Philippines.

2. Protection of contracts

The Philippine Constitution protects the sanctity of contracts through the non-impairment clause under Section 10, Article III of Philippine Constitution which states that "*No law impairing the obligation of contracts shall be passed*". Under the non- impairment clause, the Philippines government is obligated to respect the terms and conditions of contract between private entities and between the Philippines government and private entities. Any attempt to change the terms and conditions of contract without the consent of the parties involved would be considered unconstitutional.

B. The Omnibus Investments Code and the Foreign Investments Act of 1991

Aside from the basic rights granted under the Philippine Constitution, the following rights under the Omnibus Investments Code are available to all investors and registered enterprises, including foreign investors:

1. Repatriation of investments and remittance of earnings

The right to remit profits and repatriate the entire proceeds of the liquidation of the investment in the currency in which the investment was originally made and at the exchange rate prevailing at the time of repatriation may be subject to the powers of the Bangko Sentral ng Pilipinas (Central Bank of the Republic of Philippines) ("**BSP**") to restrict the sale of foreign exchange in the imminence of, or during an exchange crisis, or in time of national emergency.

2. Foreign loans and contracts

The right to remit at the exchange rate prevailing at the time of remittance such sums as may be necessary to meet the payments of interest and principal on foreign loans and foreign obligations arising from technological assistance contracts, subject to the powers of the BSP to restrict the sale of foreign exchange in the imminence of, or during an exchange crisis, or in time of national emergency.

3. Freedom from expropriation

   There shall be no expropriation by the Philippines government of the property represented by investments or of the property of the enterprise except for public use or in the interest of national welfare or defence and upon payment of just compensation. In such cases, foreign investors or enterprises shall have the right to remit sums received as compensation for the expropriated property in the currency in which the investment was originally made and at the exchange rate at the time of remittance, subject to the powers of the BSP to restrict the sale of foreign exchange in the imminence of, or during an exchange crisis, or in time of national emergency.

4. Requisition of investment

   There shall be no requisition of the property represented by the investment or of the property of enterprises except in the event of war or national emergency and only for the duration thereof. Just compensation shall be determined and paid either at the time of requisition or immediately after cessation of the state of war or national emergency. Payments received as compensation for the requisitioned property may be remitted in the currency in which the investment was originally made and at the exchange rate prevailing at the time of remittance, subject to the powers of the BSP to restrict the sale of foreign exchange in the imminence of, or during an exchange crisis, or in time of national emergency.

   The Foreign Investments Act 1991 declares the following as the state policy on foreign investments: *"SEC. 2. Declaration of Policy. — Recognizing that increased capital and technology benefits the Philippines and that global and regional economies affect the Philippine economy, it is the policy of the State to attract, promote and welcome productive investments from foreign individuals, partnerships, corporations, and governments, including their political subdivisions, in activities which significantly contribute to sustainable, inclusive, resilient, and innovative economic growth, productivity, global competitiveness, employment creation, technological advancement, and countrywide development to the extent that foreign investment is allowed in such activity by the Constitution and relevant laws, and consistent with the protection of national security. Foreign investments shall be encouraged in enterprises that significantly expand livelihood and employment opportunities for Filipinos; enhance economic value of agricultural products; promote the welfare of Filipino consumers; expand the scope, quality and volume of exports and their access to foreign markets; and/or transfer relevant technologies in agriculture, industry and support services. Foreign investments shall be welcome as a supplement to Filipino capital and technology in those enterprises serving mainly the domestic market."*

C. The ASEAN Comprehensive Investment Agreement ("**ACIA**")

The ACIA covers investment by Association of Southeast Asian Nations (ASEAN) states into the Philippines and provides the following substantive protections to covered investments:

1. national treatment;
2. most favored nation treatment;

3. fair and equitable treatment and full protection and security;
4. compensation in cases of strife; and
5. compensation for expropriation.

II. Restrictions on foreign equity

The Philippine Constitution and certain Philippines laws require minimum Filipino equity investments and cap foreign ownership of shares in domestic corporations engaged in specific businesses. Among those covered are entities considered to be operating, managing, or controlling public utilities as defined by the Public Service Act. The airline industry is not considered a public utility under the Public Service Act.

III. Taxation of Domestic Philippine Corporations

The standard Philippine corporate income tax ("**CIT**") is twenty-five percent (25%) on net taxable income. For domestic corporations with net taxable income not exceeding PHP5 million (approximately USD86,200) and whose total assets (excluding land where the business entity's office, plant, and equipment are situated) do not exceed PHP100 million (approximately USD1.72 million), the CIT is twenty percent (20%) on net taxable income.

Corporations are also subject to the minimum corporate income tax ("**MCIT**") of two percent (2%) on gross income. The MCIT is applicable beginning on the fourth taxable year immediately following the year in which a corporation commences its business operations and every year thereafter if the MCIT is greater than the calculated regular income tax.

Corporations are also subject to local business taxes imposed in accordance with the tax ordinances of the provinces, cities, and municipalities where their headquarters are located or, in certain instances, where they operate. The tax rates vary from one local government unit to another.

Dividends paid by domestic corporations to non-resident foreign corporation are subject to a final withholding tax of fifteen percent (15%), subject to the condition that the country in which the non-resident foreign corporation is domiciled, shall allow a credit against the tax due from the non- resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to fifteen percent (15%) or the difference between the regular income tax rate and the fifteen percent (15%) tax on dividends. This rate can be further reduced by applying a relevant tax treaty.

Dividends paid to domestic corporations and foreign corporations that are residents of the Philippines are not subject to tax. Dividends paid to Philippine citizens and to alien individuals who are residents of the Philippines are subject to a tax rate of ten percent (10%). In comparison, those paid to non-resident individual shareholders who are not Filipinos are subject to a tax rate of twenty percent (20%) if they are deemed to be engaged in trade or business in the Philippines and twenty-five percent (25%) if such individuals are not deemed to be engaged in trade or business in the Philippines.

The Philippines applies value-added tax ("**VAT**") at the rate of twelve percent (12%) on the sale of goods, provision of services, and importation of goods. Certain transactions are subject to the zero (0) VAT rate. These include, among others, the following:

- Services rendered to persons engaged in international shipping or international air transport operations, including leases of property for use thereof, provided that these services shall be exclusively for international shipping or air transport operations; and
- Transport of passengers and cargo by domestic air or sea vessels from the Philippines to a foreign country.

The Philippine Tax Code also exempts certain transactions from VAT. These include, among others, the following:

- Sale, importation or lease of passenger or cargo vessels and aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations;
- Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations, provided that the fuel, goods, and supplies shall be used for international shipping or air transport operations; and
- Transport of passengers by international carriers.

Laws granting franchises to operators of domestic and air transport services may grant the subject corporations with tax rates that deviate from those imposed by the Philippine Tax Code or grant them certain exemptions and other privileges.

Very truly yours,

Jude B. Ocampo
Partner

DENTONS HPRP

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Ref. No.: 1323/HPRP/IX/24

Jakarta, 20 September 2024

AirAsia X Berhad
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan, Malaysia

Attn.: Board of Directors

Re.: Report on Policies on Foreign Investments, Taxation, and Repatriation of Profits of The Republic of Indonesia in connection with proposed acquisition by AirAsia X Berhad ("AAX") of 100% equity interest in AirAsia Aviation Group Limited ("AAAGL") held by Capital A Berhad ("Capital A") for a purchase consideration of RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 new ordinary shares in AAX at an issue price of RM1.30 each ("Proposed AAAGL Acquisition") ("Report")

Dear Sirs,

We, **Hanafiah Ponggawa & Partners** ("we", "us", "our" or "**Dentons HPRP**"), act as the Indonesian legal counsel to AAX and have been instructed to issue the Report in connection with AAX's circular to shareholders ("**Circular**") with respect to, amongst others, the proposed acquisition by AAX of 100% equity interest in AAAGL, a wholly-owned subsidiary of Capital A. Capital A, through AAAGL, has indirect equity interests in the Indonesian subsidiaries namely (i) PT AirAsia Indonesia, Tbk. ("**AAI**"), (ii) PT Indonesia AirAsia ("**IAA**"), and (iii) PT Garda Tawang Reksa Indonesia ("**GTRI**") (collectively, the "**Indonesian Subsidiaries**").

This Report expressed herein is limited to matters arising under the laws of the Republic of Indonesia and is based on laws and regulations in force as of the date of this Report. We do not purport to express a report on any questions arising under the laws of any other jurisdiction. We have made no investigation of the laws of any country, state, or jurisdiction other than the laws of the Republic of Indonesia.

For the purposes of providing this Report, we have examined and relied on the list of reviewed documents ("**Documents**") listed in **Schedule I** of this Report.

A. LIMITATIONS AND ASSUMPTIONS

This Report is based on the following limitations and assumptions:

1. we assume that the laws and regulations we refer to in this Report are still valid as of 30 August 2024 and have not been amended, replaced or supplemented by other subsequent laws and regulations which comes into effect after the date of this Report;

2. we assume that there are no central or regional prevailing laws and regulations whose contents conflict with the laws and regulations we refer to in this Report;

3. this Report is given in relation to the prevailing laws in the Republic of Indonesia and is limited to questions arising under the law of the Republic of Indonesia and the prevailing laws and regulations as of 30 August 2024. We do not purport to express an analysis on any questions arising under

the laws of any other jurisdiction. We have made no investigation of the laws of any country, state or jurisdiction other than the laws of the Republic of Indonesia;

4. any statement or confirmation provided in this Report may not be used, will not be valid and/or relevant if any judge or court institution in the Republic of Indonesia and/or any other institution outside the Republic of Indonesia, based on their own considerations issue any decision or decree from time to time which does not agree with or contradicts with such statement or confirmation provided in this Report. Such statement or confirmation shall be invalid or irrelevant to the extent provided under the decision or decree. The remaining statements or confirmations provided in this Report shall remain valid and relevant;

5. all information, statements, and facts provided to us are accurate, true, and the most up to date and we have not made any examination or verification of the accuracy of such documents, statements or facts unless stated in this Report; and

6. that all facts stated in the Documents as listed in **Schedule I** of this Report submitted to us are correct, and that no relevant matter was withheld from us, whether deliberately or inadvertently; note that we have made no independent investigation of the facts expressed therein.

B. REPORT

1. Policies on Foreign Investments

In Indonesia, the regulations on investment policies are generally stipulated under Law No. 25 of 2007 on Capital Investment, as amended by Law No. 6 of 2023 on Enactment of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law ("**Investment Law**"). According to Article 5 paragraph (2) of the Investment Law, foreign entities conducting a direct foreign investment shall establish a "foreign investment company" (*Perseroan Terbatas Penanaman Modal Asing*) ("**PMA Company(ies)**") in Indonesia.

As a general rule, before an investor decides the investment structure, the investor should evaluate the possible foreign ownership restrictions in Indonesia by checking the "Positive List for Investment in Indonesia" as provided in Presidential Regulation No. 10 of 2021 on Investment Business Sectors, as amended by Presidential Regulation No. 49 of 2021 ("**Positive List**").

Generally, all business fields in Indonesia shall be 100% open for investment, except for the business fields that are declared strictly closed to investment or open only for the Central Government of Indonesia ("**Indonesian Government**"). The Positive List defines the possible restrictions applicable for the intended businesses sectors within the Indonesian economy which are open or closed to foreign direct investment. It also determines whether investment in those business sectors which are open for foreign shareholding ownership will require a local Indonesian partner or subject to any other applicable conditions.

a. Line of Business

i. Any activities to be carried out by a company in Indonesia must be identified according to 5-digit code of the Indonesia Standard Industrial Classification of 2020 (*Klasifikasi Baku Lapangan Usaha Indonesia of 2020*) ("**KBLI**") that is currently provided in BPS-Statistics Indonesia Regulation No. 2 of 2020 on Indonesia Standard Industrial Classification. KBLI helps to classify business activities and identify whether any of the proposed activities are classified under the Positive List.

ii. The table below sets out the KBLI code of each of the Indonesian Subsidiaries and its respective foreign share ownership limitation:

No.	Name of company	KBLI code	Foreign share ownership limitation
1.	PT AirAsia Indonesia, Tbk.	1. 46900 (Wholesale trade of various goods)	No limitation - open to 100% foreign ownership
		2. 70209 (Other management consultation activities)	
		3. 74902 (Business consulting and business brokerage activities)	
2.	PT Indonesia AirAsia	1. 51101 (Scheduled domestic air transport for passengers or passengers and cargo)	Foreign capital ownership is limited to a maximum of 49%, and the ownership of domestic capital must remain greater than the total ownership of foreign capital (single majority).
		2. 51103 (Scheduled international air transport for passengers or passengers and cargo)	
		3. 51201 (Scheduled domestic air transport for cargo)	
		4. 51203 (Scheduled international air transport for cargo)	
		5. 61200 (Wireless telecommunication activities)	No limitation - open to 100% foreign ownership
		6. 71201 (Certification service)	
3.	PT Garda Tawang Reksa Indonesia	52231 (Airport activities)	

b. Capital and Investment Requirements

The capital and investment requirements for PMA Companies are further governed under Regulation of the Investment Coordinating Board of the Republic of Indonesia No. 4 of 2021 on Guidelines and Procedures for Risk-Based Business Licensing Services and Investment Facilities.

i. Capitalization

A PMA Company must have issued / paid-up capital of at least Indonesian Rupiah ("**IDR**") 10,000,000,000 or the equivalent in United States Dollar ("**USD**"), unless determined otherwise by the relevant sectoral regulations (such as banking and financial sector). With the business capital value above, the PMA Company will be considered large-scale enterprise.

ii. Investment

The investment value for a PMA Company shall be more than IDR10,000,000,000, excluding land and buildings, which applies for each line of business (5-digit KBLI number) per project location. However, the investment values for the following business activities are stipulated as follows:

Activities	Investment value
Wholesale trade	More than IDR10,000,000,000, excluding land and building and applies to first 4 digits of the relevant KBLI.
Food and beverages services	More than IDR10,000,000,000, excluding land and building and applies to first 2 digits of the relevant KBLI per one location.
Construction services	More than IDR10,000,000,000, excluding land and building and for one activity and applies to first 4 digits of the relevant KBLI.
Industrial business activities that produce products with 5-digit KBLI(s) as part of one single production line	More than IDR10,000,000,000, excluding land and building.
Property construction and development	(1) For property that takes the form of complete buildings or integrated housing complexes, the relevant investment value must be more than IDR10,000,000,000, including land and building; or (2) For property units not in one building as a whole or not in integrated housing complexes, the relevant investment value must be greater than IDR10,000,000,000, excluding land and building.

Certain foreign investment companies in capital intensive industries and highly regulated businesses, such as mining and financial sectors, may be subject to higher minimum investment requirements according to the relevant laws and regulations in Indonesia.

Specifically for technology-based startups, which are not only limited to the aspects of funding, infrastructure, mentor networks, technology transfer, and market access, a PMA Company in Special Economic Zone in the technology-based business sector can invest with an investment value equal to or less than IDR10,000,000,000, excluding land and building values.

2. **Policies on Taxation**

The current framework of Indonesia's tax laws initiated in 1983 has been subsequently amended, most recently in 2023. Companies doing business in Indonesia are subject to income tax, withholding tax, value added tax ("**VAT**") and various other indirect levies, such as tax on land and building, and stamp duty ("**Tax Laws**"). Individual articles contained in the Tax Laws may be supported by the implementing regulations and decrees, such as: Government Regulations, Minister of Finance Regulations, and Decrees of the Director General of Taxation.

a. Taxpayers

The Tax Laws define a tax subject to include:

i. an individual;

ii. an undivided estate as a unit;

iii. a corporation, including a limited liability corporation, a limited partnership, other forms of limited liability entity, a state-owned or regional enterprise in whatever name and form, a partnership, an association, a firm, a joint operation, a cooperative, a foundation or similar organization, an institution, a pension fund and other forms of business entity;

iv. a permanent establishment, is defined as any establishment that is regularly used to carry on business in Indonesia by an organization not set up or domiciled in Indonesia.

In determining the residency and tax status of an individual or corporation, consideration will also be given to the provision of any applicable agreement for the avoidance of double taxation ("**Tax Treaty**") which Indonesia has concluded with other countries. In this section, both non-resident individuals and non-resident corporations will be referred to as "non-resident taxpayers".

b. Taxable Income

Taxable income is calculated after allowable deductions. Certain resident individuals are provided income tax exclusions which are set at relatively low-income levels while non-residents are taxed only on the Indonesian source income.

The tax rates applicable to resident individuals (known as PPh 21) are set out in the table below (Article 17 of Law No. 7 of 1983 on Income Tax as amended by Law No. 6 of 2023 on the Enactment of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law – "**Income Tax Law**"):

Taxable Income Tax Bracket	Tax Rate
Up to IDR60,000,000	5%
From IDR60,000,001 to IDR250,000,000	15%
From IDR250,000,001 to IDR500,000,000	25%
From IDR500,000,000 to IDR5,000,000,000	30%
Above IDR5,000,000,000	35%

When an individual receives a salary, honorarium, allowances, and other payments in connection with work, services, and activities, he/she may be subject to PPh 21. However, not all income is deducted from PPh 21. If an employee does not have a tax identification number, he/she will be subject to a surcharge of 20% on the applicable tax rate.

Subject to the provisions of any applicable tax treaty, non-resident taxpayers, namely individuals or corporations not domiciled or established in Indonesia, which derive income sourced in Indonesia from, among other things, interest, royalties or dividends from Indonesia, are subject to a final withholding tax on that income at the rate of 20%.

All residents must file a tax return unless their income is within the non-taxable income threshold. If a return is due for an individual, it must be submitted within three months following the end of the tax year.

c. Payment of Corporate Income Tax

According to Income Tax Law, the corporate income tax is imposed at a flat rate of 22% (for fiscal year 2022 onwards). This rate applies to Indonesian companies and foreign companies operating in Indonesia through a permanent establishment.

Indonesian public companies that satisfy the requirement of having a minimum of 40% of their shares held by public investors and other conditions are entitled to a tax cut of 3% off the standard rate, giving them an effective tax rate of 19%.

Small and medium-scale companies (that is, companies having gross turnover of up to IDR50 billion) are entitled to a 50% reduction of the tax rate. The reduced rate applies to taxable income corresponding to gross turnover of up to IDR4.8 billion. Certain enterprises with gross turnover of not more than IDR4.8 billion are subject to final tax at 0.5% of turnover.

d. Taxation of Dividends

According to Income Tax Law, for the distribution of dividends to resident corporate taxpayers, there is no withholding income tax. However, the distribution of dividends (regular or interim) must comply with the required formalities as provided in the Law No. 40 of 2007 on Limited Liability Company as lastly amended by Law No. 6 of 2023 on Enactment of the Regulation of the Government in Lieu of Law No. 2 of 2022 on Job Creation into Law ("**Company Law**") and articles of association of the company. For instance, a regular dividend distribution must be ratified by a general meeting of shareholders. Dividends received by Indonesian resident individual taxpayers that are not to be invested in Indonesia are subject to a final income tax with a maximum rate of 10%. If the dividends received is going to be invested in Indonesia, it is not subject to income tax.

Meanwhile, dividends remitted overseas are subject to a final 20% withholding tax, unless an applicable tax treaty provides a lower rate.

e. Capital Gains on Disposal of Shares

Indonesia does not impose a special tax on capital gains. Under the prevailing regulations, capital gains from the disposal of shares in an Indonesian non-listed company are classified as income and subject to the normal income tax rules if received by resident taxpayers. For the sale of shares by non-resident taxpayers, a 5% effective tax rate of final withholding tax is due on the gross sale transaction value, which may be lower for relevant treaty countries.

Income earned by individuals or companies from the sale of shares on the stock exchange is subject to a final income tax at a rate of 0.1% of the total gross transaction value whereas founder shares are subject to an additional final tax of 0.5% on listing. Notwithstanding the foregoing, founder shareholders can benefit to only pay 0.1% final tax rate if they have paid 0.5% of the market price within 30 days of their shares listing becoming effective. Otherwise, gains on the sale of shares by founder shareholders are taxed under normal rules.

f. Anti-Avoidance Rule on the Tax Treaty

Indonesia has concluded tax treaties with a number of countries. The relevant tax treaty may also affect the definition of non-resident taxpayers. Where a tax treaty exists and the eligibility requirements of that treaty are satisfied, a reduced rate of withholding tax may be applicable in the case of interest, royalty and dividends. This is also subject to there being no misuse of the tax treaties and the non-resident taxpayers meeting the administrative requirements under the Indonesian tax regulations.

Some tax treaties also provide an exemption from Indonesian tax on any capital gains of non-resident taxpayers arising from alienation of certain properties in Indonesia. To obtain the benefit of an applicable tax treaty, the non-resident taxpayer must be the beneficial owner of the income received from Indonesia and comply with the eligibility requirements of the tax treaty and the specific requirements in Indonesia.

g. Value Added Tax (VAT)

According to Law No. 8 of 1983 on Value Added Tax on Goods and Services and Sales Tax on Luxury Goods as amended by Law No. 6 of 2023 on the Enactment of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law, VAT is imposed on delivery of most goods and services at a rate of 11% and will be increased to 12% starting from 1 January 2025 at the latest.

Under the current VAT legislations, Indonesian Government provides VAT relief in the form of VAT exemption on importation or acquisition of certain strategic goods or services.

Entrepreneurs delivering taxable goods or services exceeding IDR4.8 billion in a calendar year are required to register for VAT and issue VAT invoices on delivery of taxable goods and services.

h. Stamp Duty

Stamp duty (*Bea Meterai*) is a tax imposed on certain types of documents. Law No. 10 of 2020 on Stamp Duty sets a uniform stamp duty rate in the amount of IDR10,000 for each document that is considered subject to stamp duty. However, the nominal value may be subject to reduction or increase depending on the national economic conditions and the level of public income, or applied with different fixed rates in the context of implementing government programs and supporting the implementation of monetary and/or financial sector policies.

The subject of the stamp duty and the party which must pay the stamp duty is the same unless there is an agreement between the parties which states otherwise.

i. Property Tax

Land and building tax is imposed on individuals, companies or organizations that have certain rights to or obtain benefits from land, or possess, control or obtain benefits from ownership of land and buildings. The tax is based on the government assessed value (ratable value) of the land and buildings as determined by the regional government. The current tax on land and buildings could be up to 0.5% of the ratable value deducted with non-taxable ratable value.

A transfer of rights to land and building will give rise to income tax on the deemed gain on the transfer/sale to be charged to the transferor (seller). The tax is set at 2.5% of the gross transfer value (tax base). A transfer of land and building rights will typically also give rise to duty on the acquisition of land and building rights (*Bea Pengalihan Hak atas Tanah dan Bangunan*/BPHTB) at the maximum of 5% of the transfer value for the party receiving or obtaining the rights.

3. Policies on Repatriation of Profits

According to prevailing laws and regulations in Indonesia, there are no exchange control restrictions applicable for PMA Companies from making dividend payments or other distributions related to their issued share capital.

However, it is worth noting that there are restrictions on transferring IDR outside Indonesia and exchange of foreign currency as governed under (1) Bank Indonesia Regulation No. 6 of 2024 on Money Market and Foreign Exchange Market ("**PBI 6/2024**") along with its implementing regulation, Board of Governors Regulation No. 24/10/PADG/2022 of 2022 on Implementing Regulation for Transactions on the Foreign Exchange Market, and (2) Bank Indonesia Regulation No. 21/15/PBI/2019 on the Supervision of Foreign Exchange Activities between Banks and Customers ("**PBI 21/15/2019**") respectively.

According to PBI 6/2024, any funds transfer from Indonesia to another jurisdiction requires the conversion of IDR into an acceptable foreign currency by the receiving bank. The party initiating the fund transfer must first purchase foreign currency. Fund transfers with the following thresholds must be based on an underlying transaction:

a. cash transactions, either today, tomorrow or spot in the amount of or more than USD100,000 per month per party;

b. forward-purchase transactions, in the amount of or more than USD100,000 per month per party;

c. forward-sale transactions, in the amount of or more than USD5,000,000 per transaction;

d. non-forward purchase transactions, in the amount of or more than USD100,000 per month per party; and

e. non-forward sale transactions, in the amount of or more than USD1,000,000 per transaction,

The valid underlying transactions include current account transactions, financial account transactions, capital account transactions, credit or financing from bank to residents for trade and investment purposes, domestic trade of goods and services and other underlying transactions as may be stipulated by Bank Indonesia.

Meanwhile, with reference to PBI 21/15/2019, any outgoing transfer from Indonesia to another jurisdiction in foreign currencies exceeding USD100,000 (or its equivalent) by any party through an Indonesian bank (except for transfers of a party's own bank deposit to its own foreign account) must be supported by valid underlying and supporting documentation, such as photocopies of import customs notifications, letters of credit and invoices.

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AirAsia X Berhad
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This Report is strictly limited to the matters stated herein and is not to be read as an advice with respect to any other matter. This Report is addressed to, and is for the addressee's sole benefit in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. Save for Mah-Kamariyah & Philip Koh, Advocates and Solicitors and Inter-Pacific Securities Sdn Bhd as well as any other advisers to AAX in relation to the Proposed AAAGL Acquisition, it is not to be transmitted to anyone else nor is it to be relied upon by anyone else or for any other purpose or quoted or referred to in any public document or filed with anyone without our express written consent except where such disclosure is required to be made by applicable law or is requested by Bursa Malaysia Securities Berhad or any other regulatory agency. This Report will be annexed to the Circular in respect of an extraordinary general meeting to be convened to approve, amongst others, the Proposed AAAGL Acquisition.

Yours faithfully,
Hanafiah Ponggawa & Partners

Hanafiah Ponggawa & Partners

MAH-KAMARIYAH & PHILIP KOH
ADVOCATES & SOLICITORS • NOTARY PUBLIC

Date	:	23 September 2024
Our Reference	:	CORP/2022.108/AKYY/KPY/JT/LHY
Your Reference	:	

AIRASIA X BERHAD **BY EMAIL**
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor

Attention: The Board of Directors

Dear Sirs,

LEGAL OPINION IN CONNECTION WITH THE PROPOSED ACQUISITION BY AIRASIA X BERHAD ("AAX" OR "COMPANY") OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED ("AAAGL" OR "TARGET COMPANY") HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX AT AN ISSUE PRICE OF RM1.30 EACH ("PROPOSED AAAGL ACQUISITION")

1. INTRODUCTION

1.1 We are a firm of lawyers qualified to advise on the laws of Malaysia and have been instructed by AAX to issue a legal opinion ("**Legal Opinion**") on the following matters:

(a) the due incorporation and capacity of the Target Company;

(b) the ownership of title to the shares in the Target Company; and

(c) the validity and enforceability of the following agreements:

(1) share sale and purchase agreement dated 25 April 2024 entered into between Capital A Berhad ("**Capital A**") (as seller) and AirAsia Group Berhad (*formerly known as AirAsia Aviation Group Sdn. Bhd.*) ("**NewCo**") (as purchaser) in respect of the sale and purchase of the entire equity interest in AAAGL ("**AAAGL SSPA**");

(2) supplemental agreement to the AAAGL SSPA dated 26 July 2024 entered into between Capital A (as seller), NewCo (as original purchaser) and AAX (as new purchaser), for the purpose of making certain amendments and variations to the AAAGL SSPA ("**First Supplemental Agreement**"); and

(3) second supplemental agreement to the AAAGL SSPA dated 4 September 2024 entered into between Capital A and AAX, for the purpose of making certain amendments and variations to the AAAGL SSPA (as amended and supplemented by the First Supplemental Agreement) ("**Second Supplemental Agreement**"),

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Yap Siew Bee

Senior Partner
Philip Koh Tong Ngee

Partners
Adrian Koh Yeow York
Christina Lau Zhi Yan
Kamraj Nayagam
Lee Yee Peng
Lim Lee
Ling Wenny
Low Kin Sin
Pang Jia Ling
Surialinda Ahmad
Yap Boon Hau
Yee Chew Yan
Yip Jia Hui

Johore Resident Partner
Tan Khai Ling

Muar Resident Partner
Ong Kai Rou

Senior Associates
Ashleigh Heng Wei Yee
Chen Ee Wern
Kong Pei Yin
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Grace Tan Keng Sang
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Lim Hui Ying
Lydia Chong Nien Chee
Nicole Lee Shih En
Poo Hao Yi
Rebecca Ong Chi Cheng
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* Please quote our reference when replying
* Working hours 8:30 a.m. to 5:30 p.m., Mondays to Fridays

in connection with the issuance of AAX's circular to shareholders ("**Circular**") to seek its shareholders' approval for, amongst others, the Proposed AAAGL Acquisition.

2. BASIS OF OPINION

2.1 This Legal Opinion relates only to the laws of general application in Malaysia (and in particular the Federal Territory of Labuan ("**Labuan**")) as at the date of this Legal Opinion and we have made no investigation of and do not express any views on, the application of the laws of any other country other than Malaysia. In issuing this Legal Opinion, we also express no opinion as to any subsequent change in the relevant laws of Malaysia and Labuan, which comes into effect after the date hereof and assume no obligation to notify or inform you of any subsequent developments to relevant laws of Malaysia and Labuan which comes into effect after this date hereof which might render its contents untrue or inaccurate in whole or in part at such later time.

2.2 In providing this Legal Opinion, we have assumed the accuracy, validity and completeness of the background facts/circumstances set out in this Legal Opinion and that there are no facts material to our opinion herein which we are unaware. We also express no opinion in this Legal Opinion about factual matters.

2.3 This Legal Opinion does not constitute a recommendation to any shareholders of the Company as to how any shareholder of the Company should vote in respect of the Proposed AAAGL Acquisition.

3. DOCUMENTS EXAMINED

3.1 For the purposes of rendering this Legal Opinion, we have conducted and relied on –

(a) searches at the databases of the Labuan Financial Services Authority ("**LFSA**") and the Malaysian Department of Insolvency to obtain certain confirmations in respect of the Target Company, its directors and/or its corporate shareholder; and

(b) searches at the databases of the Malaysian Department of Insolvency and CTOS Data Systems Sdn. Bhd ("**CTOS Database**"), in respect of the directors and corporate shareholder of the Target Company.

3.2 As such, we have undertaken the following searches on the Target Company, the directors of AAAGL ("**Directors**") and the corporate shareholder of AAAGL ("**Shareholder**") only for the purpose of this Legal Opinion –

(a) company search conducted on 12 July 2024 on AAAGL with the LFSA ("**LFSA Company Search**");

(b) letter of good standing on the subsistence of AAAGL dated 17 July 2024 ("**Letter of Good Standing**"), letter of information setting out the corporate information of AAAGL dated 17 July 2024 ("**Information Letter**") and letter of information on the creation of charge by AAAGL dated 17 July 2024, all issued by the LFSA;

(c) winding-up searches conducted on 21 September 2024 at the Malaysian Department of Insolvency confirming that the Target Company and its Shareholder have not been wound up according to the records of the Malaysian Department of Insolvency as at the date stated therein;

(d) insolvency searches conducted on 21 September 2024 at the Malaysian Department of Insolvency confirming that the Directors are not bankrupts according to the records of the Malaysian Department of Insolvency as at the date stated therein; and

(e) searches conducted on 20 September 2024 on the Directors and Shareholder at the CTOS Database confirming that the Directors and Shareholder are not presently involved in any legal suits and/or any bankruptcy/winding-up proceedings according to the records of the CTOS Database as at the date stated therein, (collectively, the "**Searches**").

3.3 In rendering this Legal Opinion, we have examined the following documents –

(a) certificate of incorporation of offshore company pursuant to section 15(5) of the Offshore Companies Act 1990 (*now known as Labuan Companies Act 1990*) certifying that the Target Company was incorporated on 11 September 2003 under the name of AA International Ltd;

(b) certificate of incorporation on change of name of a Labuan company pursuant to section 22(2) of the Labuan Companies Act 1990 ("**LCA 1990**") certifying on the following:

(1) the change of name from AA International Ltd to AirAsia Investment Ltd with effect from 18 November 2011;

(2) the change of name from AirAsia Investment Ltd to AirAsia Aviation Limited with effect from 7 October 2021; and

(3) the change of name from AirAsia Aviation Limited to AirAsia Aviation Group Limited with effect from 7 February 2022;

(c) memorandum and articles of association of AAAGL ("**M&A**");

(d) register of members and beneficial owners of the Target Company;

(e) register of transfer of the Target Company;

(f) register of directors of the Target Company;

(g) register of secretaries of the Target Company;

(h) resolutions from the meetings of board of directors or directors' circular resolution of the Target Company concerning allotment and issuance of shares and transfer of shares in the Target Company;

(i) forms of return of allotment of shares in respect of allotment and issuance of shares in AAAGL pursuant to section 43(1) of the LCA 1990 dated 12 September 2003, 5 January 2004 and 12 October 2004 respectively;

(j) forms of transfer of shares in respect of transfer of shares in AAAGL pursuant to section 80 of the LCA 1990 dated 23 April 2007, 24 May 2007, 12 July 2007, 8 August 2007 and 30 August 2018 respectively ("**Forms of Transfer of Shares**");

(k) form of Annual Return of AAAGL pursuant to section 109 of the LCA 1990 dated 9 August 2024 ("**Annual Return**");

(l) a copy of the executed AAAGL SSPA, the executed First Supplemental Agreement and the executed Second Supplemental Agreement (collectively, the "**Agreements**");

(m) certified true copy of the extract of the minutes of the special board meeting of the Company held on 24 April 2024 authorising, *inter alia*, (1) the undertaking of the Proposed AAAGL Acquisition by NewCo; (2) the entry of the AAAGL SSPA by NewCo; and (3) the signing and execution of the acknowledgment page contained in the AAAGL SSPA by Dato' Abdul Mutalib Bin Alias, the Independent Non-Executive Director of the Company on behalf of the Company;

(n) directors' circular resolution of NewCo and member's written resolution of NewCo, both dated 25 April 2024 authorising, *inter alia*, (1) the undertaking of the Proposed AAAGL Acquisition by NewCo; (2) the entry of the AAAGL SSPA by NewCo; and (3) the signing and execution of the AAAGL SSPA by any one of the directors of NewCo on behalf of NewCo;

(o) certified true copy of the extract of the minutes of the board meeting of the Company held on 22 July 2024 authorising, *inter alia*, (1) the undertaking of the Proposed AAAGL Acquisition by AAX in place of NewCo; (2) the entry of the First Supplemental Agreement by the Company; and (3) the signing and execution of the First Supplemental Agreement by Benyamin Bin Ismail, the Chief Executive Officer of the Company or any one of the directors of the Company on behalf of the Company; and

(p) directors' circular resolution of the Company dated 4 September 2024 authorising, *inter alia*, (1) the entry of the Second Supplemental Agreement by the Company; and (2) the signing and execution of the Second Supplemental Agreement by Benyamin Bin Ismail, the Chief Executive Officer of the Company or any one of the directors of the Company on behalf of the Company,

(collectively, the "**Documents**").

3.4 Our Legal Opinion is given on the basis of assumptions set out in **Schedule 1** hereto and is subject to the qualifications set out in **Schedule 2** hereto. For the purposes of this Legal Opinion, we have not examined or relied on any other documents other than the Documents listed above. Our examination of the Documents listed above is strictly to the extent that is relevant to our opinion herein.

3.5 We express no opinion as to any agreement, instrument or other document or matter other than as specified in this Legal Opinion.

4. SCOPE OF ENQUIRIES

4.1 Unless otherwise stated in this Legal Opinion, this opinion does not address or purport to address in any detail, items and matters dealt with in any report made by any accountants, valuers, quantity surveyors or other advisers or experts (if any) in connection with the Proposed AAAGL Acquisition.

4.2 This opinion only relates to the legal aspects of AAAGL and does not apply by implication to other matters and, in particular, does not include the commercial aspects involving AAAGL and the adequacy of the steps and verification taken.

4.3 In preparing this Legal Opinion and carrying out work in respect of the due diligence exercise, we have limited our enquiries to matters of a legal nature and to the verification of legal information relating to the Proposed AAAGL Acquisition and accordingly have neither raised queries in respect of or otherwise investigated and accordingly express no opinion on, any accounting, financial or commercial issues relating to or otherwise affecting or capable of affecting, directly or indirectly, AAAGL or the Proposed AAAGL Acquisition. In particular, our role in the due diligence verification does not include, *inter alia*, the following:

(a) Review or verification of the accounts of AAAGL and other taxation (unless otherwise stated in this opinion) or financial data.

(b) Review or verification of any information or statements on the commercial aspects of AAAGL, including its business prospects, the estimates, the assumptions and justification of future earnings, etc.

(c) Verification of the adequacy of the insurances taken up by AAAGL.

(d) Information on profitability, viability or reputation.

(e) Technical non-legal information and investment considerations.

(f) All other information relating to the Proposed AAAGL Acquisition which are within the scope of expertise of other advisors such as, but not limited to, valuers, auditors, tax advisors, accountants, investment bankers and other independent expert advisers.

4.4 Our role in the due diligence review does not include rectifying any irregularities that are uncovered in the course of the due diligence review.

5. LEGAL OPINION

Based upon our review of the Documents and Searches as set out in paragraph 3 of this Legal Opinion and subject to the assumptions set out in **Schedule 1** and the qualifications set out in the **Schedule 2** as well as having regard to such considerations of Malaysian law (and in particular, Labuan) in force as at the date of this Legal Opinion as we consider relevant, we are of the opinion that:

5.1 Due incorporation and capacity

5.1.1 The Target Company is a private limited company duly incorporated and validly existing as a legal entity under the laws of Labuan, Malaysia.

5.1.2 The Target Company is capable of suing and being sued in its own name.

5.1.3 The Target Company has the necessary capacity, corporate powers and authority to enter into valid and binding agreements, make representations and commit to undertakings in its own name in Malaysia.

5.1.4 Upon having perused the object clauses of the M&A, we are of view that it contains adequate power for the Target Company to carry on its principal business according to the Annual Return.

5.1.5 Based on the Letter of Good Standing, the Information Letter as well as the winding-up search as stated in paragraph 3.2(c) of this Legal Opinion, as at the dates stated therein respectively –

(a) AAAGL has not submitted to LFSA articles of merger, consolidation or take over that has not yet become effective;

(b) AAAGL has not submitted to LFSA arrangement or reconstructions under Part VII of LCA 1990;

(c) AAAGL is not in the process of being wound up, liquidated, ceased business or transfer of domicile to other jurisdiction;

(d) there was no legal process with regards to winding-up and dissolution of AAAGL which has been initiated, filed or brought to attention of the LFSA;

(e) no proceedings have been initiated to strike AAAGL off the register; and

(f) insofar as is evidenced by the forms or documents filed with the LFSA under LCA 1990, AAAGL is still in existence.

5.2 Ownership of title to shares in the Target Company

5.2.1 Based on the LFSA Company Search, the Information Letter and the register of members and beneficial owners of AAAGL, the total issued share capital of the Target Company is USD5,270,000.00 comprising of 5,270,000 ordinary shares. As at the date of this Legal Opinion, the issued shares of the Target Company have been duly authorised and validly issued. The name and details of the registered Shareholder of AAAGL is as follows:

No.	Registered Shareholder	No. of shares held in AAAGL	Equity interest (%)
1.	Capital A	5,270,000	100
Total		**5,270,000**	**100**

5.2.2 Based on the register of transfer and the Forms of Transfer of Shares, the share transfer involving the Target Company in relation to the equity interest held by the Shareholder of AAAGL as set out in paragraph 5.2.1 above has been authorised, lawfully completed and was validly transferred.

5.2.3 There is no restriction to transfer ownership of the shares in the Target Company, nor there are any restrictions on holders of shares of the Target Company to exercise the right to vote on its shares. Further, based on the documents made available to us, save as stated in Schedule 3A of the Agreements, there are no consents or approvals of any third party which are required to give effect to such transfer or for any third party to hold such shares or to exercise rights in respect of such shares.

5.2.4 Based on the documents made available to us, AAAGL has not entered into any contract or agreement which require AAAGL to issue options, warrants, instruments convertible to shares or other rights of a similar nature to purchase or subscribe for any interest in the shares of AAAGL.

5.3 Enforceability of agreements, representations and undertakings in connection with the Proposed AAAGL Acquisition

5.3.1 The agreements, representations and undertakings given by the Target Company and AAX under the Agreements in connection with the Proposed AAAGL Acquisition are generally enforceable under the laws of Malaysia.

5.3.2 As the Target Company is the subject matter of the Proposed AAAGL Acquisition, AAAGL is not a signatory to the Agreements.

5.3.3 In respect of the Agreements, subject to the conditions precedent as stipulated under the Agreements, AAX has the legal capacity and corporate power and authority to enter into and perform its obligations under the Agreements to which it is a party and has taken all necessary corporate action to authorise the execution, delivery and performance of the Agreements.

5.3.4 The Agreements have been duly executed by the authorised signatories of NewCo and AAX respectively.

5.3.5 The directors' circular resolution and member's written resolution of NewCo, the extract of the minutes of the board meeting of AAX held on 22 July 2024 as well as the directors' circular resolution of AAX referred to in paragraphs 3.3(n), 3.3(o) and 3.3(p) above authorise (1) any one of the directors of NewCo to sign the AAAGL SSPA; and (2) Benyamin Bin Ismail, the Chief Executive Officer of the Company or any one of the directors of the Company to sign and execute the First Supplemental Agreement and the Second Supplemental Agreement.

5.3.6 Insofar as Malaysian law is concerned, the obligations of AAX and the Target Company (where applicable) are legally valid, binding and enforceable against AAX and the Target Company respectively in accordance with the terms of the Agreements.

5.3.7 The entry into and delivery and performance of the obligations of AAX and the Target Company (where applicable) under the Agreements do not or will not violate any law or regulation of Malaysia or the provisions of the M&A.

5.3.8 The Agreements are governed by Malaysian law. In respect of the Agreements, the parties to the Agreements agree that any dispute, difference or question between the parties which cannot be resolved will be referred to and finally resolved by arbitration in accordance with the relevant provisions under the Agreements.

6. Benefit of Opinion

6.1 This Legal Opinion is addressed to the Company solely for its benefit in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. This Legal Opinion is not to be transmitted to anyone else nor is it to be relied upon by anyone else or used for any other purpose or quoted or referred to in any public document or filed with anyone without our express consent, save that a copy of this Legal Opinion may be disclosed to Bursa Malaysia Securities Berhad and to be enclosed in the Circular.

Yours faithfully
for and on behalf of
MAH-KAMARIYAH & PHILIP KOH

Adrian Koh Yeow York
Partner
Email : adrian.koh@mkp.com.my
Direct tel. line : +603-7954 1561

Schedule 1

Assumptions

For the purposes of this Legal Opinion, we have made the following assumptions:

(a) That all Documents submitted to us as copies, certified true copies or specimen documents, including without limitation to the documents forwarded to us are complete and conform to their originals.

(b) That all relevant documents have been executed in the same form as that examined by us.

(c) That the signatures, seals and any duty stamp or marking on the originals of all documents are genuine and that all signatories thereto have been duly authorised by the respective company.

(d) That the persons who have attested the affixation of the common seal of a corporation are persons who are authorised to do so by that corporation's articles of association or other constituent document.

(e) That the Agreements were executed in the form referred to in paragraph 5.3.5 above.

(f) That each of the Documents (whether original or copies) supplied to us continues unamended and in full force and effect and has not been varied, cancelled, revoked or superseded by some other document, record, resolution, agreement or action of which we are unaware and in particular, the various resolutions of the Target Company, the Company and NewCo referred to above have not and will not be rescinded, revoked, terminated, amended or declared null and void.

(g) That the entire contractual arrangement in relation to the Agreements is as evidenced in the Agreements.

(h) That save for those factual matters which are also the subject-matter of any opinion given by us in this Legal Opinion, all factual matters stated in the Agreements and all other documents furnished to us in respect of the Proposed AAAGL Acquisition are true, accurate and complete.

(i) Except where it is apparent (including from the company searches referred to above conducted with the LFSA) that it was not reasonable for us to so assume, all corporate records and documents inspected by us are complete, up to date and accurate.

(j) That the resolutions from the meetings of board of directors or directors' circular resolution of the Target Company, the directors' circular resolutions and member's written resolutions of NewCo both dated 25 April 2024, the extracts of the minutes of the special board meeting of the Company held on 24 April 2024 and 22 July 2024 respectively and the directors' circular resolution of the Company dated 4 September 2024 referred to above were validly passed and have not and will not be varied or revoked.

(k) Each party to the Agreements (other than NewCo and AAX) –

  (i) has the capacity and (in the case of a body corporate) is validly existing under the laws of its jurisdiction of incorporation and has the corporate power (where applicable) to enter into and perform all its obligations under the Agreements; and

  (ii) has taken all necessary action to authorise the execution, delivery and performance by it of the terms and conditions of the Agreements in accordance with its terms.

(l) That none of the parties to the Agreements have been or will be, seeking to conduct any relevant transaction or any associated activity in a manner or for a purpose not evident on the face of the Agreements which is illegal, void or unenforceable or which might render the Agreements or any relevant transaction or associated activity illegal, void or unenforceable.

(m) That save for representations and warranties which are also the subject-matter of any opinion given by us in this Legal Opinion, unless otherwise stated in another paragraph of this Legal Opinion, the representations and warranties of AAX in the Agreements are true and correct.

(n) That no party has entered or will enter into the Agreements by reason or in consequence (whether wholly or in part) of fraud, mistake, duress, undue influence, misrepresentation or any other similar act, matter or thing which would or might vitiate or prejudicially affect the Agreements or otherwise entitle a party to avoid, rescind or have rectified the Agreements or any of their obligations under the Agreements or give rise to a claim for damages.

(o) That all documents and instruments of the Target Company submitted to the LFSA for filing / registration are up to date as of the date the search results were issued by the LFSA and there have been no material changes of fact or circumstances in relation to the facts and matters set out in these search results since the relevant dates specified therein.

(p) That there are no current or pending investigations, actions, suits or proceedings (including but not limited to claims, litigation, arbitration, administrative, tribunal, regulatory, criminal or insolvency proceedings) against or affecting the Target Company and there is no unsatisfied award, judgment or court order outstanding against the Target Company or any distress, execution or other process that has been levied against the undertakings, properties or assets of the Target Company.

(q) That there are no facts material to our opinion herein which do not appear from all the documents and the public records examined by us or our representatives and of which we are unaware.

(r) That all relevant documents have been validly authorised, executed and delivered by each of the parties thereto (other than NewCo and AAX) and the performance thereof is within the capacity and powers of each of the parties thereto (other than NewCo and AAX) and are binding and enforceable against the parties thereto (other than NewCo and AAX).

(s) That each party to the Agreements (other than NewCo and AAX) has or will have prior to performing any of its functions or obligations under the Agreements, complied with all applicable laws, regulations and guidelines, obtained all necessary consents, permissions, approvals, licences, permits, authorisations and declarations and carried out all necessary filings, registrations, similar actions or other actions as required under the laws of Malaysia and all relevant jurisdictions (if applicable) in order to lawfully implement or perform the Agreements.

(t) That where the Agreements are executed by any party outside Malaysia, the formalities for execution required by the law of the place of execution have been or will be duly complied with, if applicable.

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SCHEDULE 2

Qualifications

The opinions expressed in this Legal Opinion are subject to the following qualifications:

(a) Enforcement may be limited by bankruptcy, insolvency, liquidation, reorganisation and other laws of general application relating to or affecting the rights of creditors.

(b) Statements in this Legal Opinion as to the right or liability of a person to do any act, deed or thing in the present or future or both are based on the laws of Malaysia as at the date hereof.

(c) Our opinion (if any) that an obligation or document is valid, binding and/or enforceable means that the obligation or document is of a type and form which the courts in Malaysia in principle enforce. It should not be taken to mean that the obligations or documents will necessarily be enforced in accordance with their terms in all circumstances. In particular –

 (i) the enforcement of obligations may be affected or limited by bankruptcy, insolvency, liquidation, reorganisation and other laws of general application relating to or affecting the rights of creditors;

 (ii) equitable remedies, such as injunctions and specific performance, are discretionary;

 (iii) the enforceability of obligations may be affected by statutes of limitation, by estoppel and similar principles;

 (iv) claims may be subject to defences of set-off, counter-claim, estoppel, abatement and similar principles; and

 (v) the enforcement of obligations may be affected or limited by the occurrence of any event of frustration or principles of public policy.

(d) In any proceedings taken in Malaysia for the enforcement of the Agreements or any foreign judgment obtained in respect thereof, any sum required to be paid under any judgment or order of any court of Malaysia (whether as a debt, damages or otherwise) to or for the credit of a person resident outside Malaysia shall be paid into court and such payment may be subject to a requirement that it may be paid to or for the credit of such person only with the permission of the Controller of Foreign Exchange of Bank Negara Malaysia.

(e) Where available, we have relied on the veracity of the respective searches conducted by us or our representatives at the respective electronic databases of the CTOS Database, Malaysian Department of Insolvency and the LFSA.

(f) We express no opinion about factual matters. In particular, save for representations and warranties which are also are the subject-matter of any opinion given by us in this Legal Opinion, we have not verified, are not expressing an opinion on and do not assume any responsibility for the accuracy of any representation or warranty included in the Agreements or the subject of any representation or warranty.

(g) We express no opinion on any provision in the Agreements requiring written amendments and waivers insofar as it suggests that oral or other modifications, amendments or waivers could not be effectively agreed upon or granted between or by the parties.

(h) Any clause providing for the severability of any provisions of the Agreements may not be enforceable in accordance with its terms, as a court in Malaysia may reserve to itself a discretion and the decision as to whether any provision is severable.

(i) A determination, calculation, certificate or statement as to any matter provided for in the Agreements may be held by the courts of Malaysia not to be conclusive and binding in certain circumstances and will not necessarily prevent judicial enquiry into the merits of any claim by an aggrieved party. An example of such circumstances is if such determination, calculation, certificate or statement could be shown to have an unreasonable or arbitrary basis or in the event of manifest error or fraud.

(j) To the extent that a provision of the Agreements may require a corporation (that is a party to the Agreements) to procure another corporation (that is not a party to the Agreements) to do or refrain from doing any act, matter or thing, if it would be a breach of the duties of the directors of the second mentioned corporation (that is not a party to the Agreements) to do or refrain from doing that act, matter or thing or if it would be illegal under the laws of Malaysia, such provision may not be enforceable.

(k) A court of Malaysia may stay proceedings if concurrent proceedings are being brought elsewhere.

(l) We express no opinion on any provision in the Agreements requiring written amendments and waivers insofar as it suggests that oral or other modifications, amendments or waivers could not be effectively agreed upon or granted between or by the parties to the Agreements.

(m) Where under the Agreements any party is vested with a discretion or may determine a matter in its opinion, the laws of Malaysia may require that such discretion be exercised reasonably or that such opinion be based upon reasonable grounds.

(n) Any additional or default interest imposed by the Agreements on AAX or any other party thereto where it has defaulted in the performance of any of its obligations might be deemed by a court in Malaysia to be a penalty in which event the said court may in place thereof order payment of an amount (not exceeding the additional interest imposed) which it considers to be reasonable.

(o) Where any obligation under the Agreements is to be performed in any jurisdiction outside Malaysia, it may not be enforceable under Malaysian law to the extent that such performance would be illegal or unenforceable under the laws of such jurisdiction or if they may otherwise be contrary to public policy.

(p) The rights and obligations of the parties to the Agreements may be affected by the laws applicable to contracts held to have been frustrated by events happening after their execution.

(q) We express no opinion as to the ability of the parties to the Agreements to observe and comply with their obligations thereunder or on the legal and regulatory requirements of any country (other than Malaysia) for the execution, delivery and enforcement of the Agreements.

(r) A provision that any statement, opinion, determination or other matter is final and conclusive will not necessarily prevent judicial enquiry into the merits of a claim by an aggrieved party.

(s) Any provision purporting to require a party to indemnify another person against the costs or expenses of proceedings in Malaysian courts is subject to the discretion of the court to decide whether and to what extent a party to such proceedings should be awarded costs and expenses incurred by it in connection therewith.

(t) We express no opinion as to any obligation which the Agreements may purport to establish in favour of any person who is not a party to the Agreements.

(u) The courts may not give effect to any term of the Agreements providing for the total or partial exclusion of a liability or duty otherwise imposed by law.

(v) A payment made under mistake may be liable to restitution.

(w) The laws of Malaysia may require that parties act reasonably and in good faith in their dealings with each other.

(x) Our opinion herein is limited to the matters stated herein and does not apply by implication to any other matters in connection with the Agreements and in particular, it does not include the commercial aspects of the transaction contemplated therein and the adequacy of the terms and conditions of the Agreements vis-à-vis the positions of the parties thereto.

(y) Where an assumption is stated to be made in this Legal Opinion, we have not, except where expressly otherwise indicated, made any independent investigation with respect to the matters forming the subject of such assumption.

CHANDLER MHM

Chandler MHM Limited
17th and 36th Floors, Sathorn Square Office Tower
98 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand
Tel: +66-2-009-5000

Date: 20 September 2024

To: The Board of Directors
AirAsia X Berhad
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan
Malaysia

Re: LEGAL OPINION IN CONNECTION WITH THE PROPOSED ACQUISITION BY AIRASIA X BERHAD ("AAX") OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX ("CONSIDERATION SHARES") AT AN ISSUE PRICE OF RM1.30 EACH CONSIDERATION SHARE

Dear Sirs,

1. **INTRODUCTION**

We, Chandler MHM Limited, act as Thai legal counsel to AAX, and hereby issue this opinion letter ("**Opinion Letter**") solely for your benefit in connection with AAX's circular to shareholders ("**Circular**") in respect of, amongst others, the proposed acquisition by AAX of 100% equity interest in AirAsia Aviation Group Limited ("**AAAGL**") from Capital A Berhad ("**Capital A**") resulting in an indirect acquisition of (i) Asia Aviation Public Company Limited ("**AAV**"), (ii) Thai AirAsia Co., Ltd. ("**TAA**") and (iii) Asia Aviation Center Co., Limited ("**AACCL**") (collectively, referred to as the "**Thai Target Group**"), all of which are companies incorporated under Thai law ("**Proposed AAAGL Acquisition**").

2. **DOCUMENTS REVIEWED**

For the purposes of this Opinion Letter, we have examined the Reviewed Documents (as defined below) and relied upon the statements as to factual matters contained in or made pursuant to each of the Reviewed Documents.

3. **DEFINITIONS**

In this Opinion Letter:

"**AAAGL SSPA**" means the conditional share sale and purchase agreement dated 25 April 2024 for the Proposed AAAGL Acquisition for a purchase consideration of RM3,000.00 million (as amended, varied and supplemented by the Supplemental Agreement and the Second Supplemental Agreement).

"**Agreements**" means collectively, the AAAGL SSPA, the Supplemental Agreement and the Second Supplemental Agreement.

"**Constitutional Documents**" means the documents as stated in Part 1 of the Schedule 1 (*Documents Reviewed*).

"**MOC**" means Ministry of Commerce of Thailand.

"**NewCo**" means AirAsia Group Berhad (formerly known as AirAsia Aviation Group Sdn Bhd).

"**Parties**" or "**Party**" means any party to the Agreements.

"**Reviewed Documents**" means the documents listed in Schedule 1 (*Documents Reviewed*).

"**RM**" means the lawful currency of Malaysia.

"**SET**" means the Stock Exchange of Thailand.

"**Second Supplemental Agreement**" means the second supplemental agreement to the AAAGL SSPA dated 4 September 2024 entered into between Capital A (as seller) and AAX (as purchaser), for the purpose of making certain amendments and variations to the AAAGL SSPA (as amended and supplemented by the Supplemental Agreement).

"**Supplemental Agreement**" means the supplemental agreement to the AAAGL SSPA dated 26 July 2024 entered into between Capital A (as seller), NewCo (as original purchaser) and AAX (as new purchaser), for the purpose of making certain amendments and variations to the AAAGL SSPA. Pursuant to the Supplemental Agreement, AAX has assumed the rights, benefits, title, interests, obligations and liabilities of NewCo to the AAAGL SSPA as the new purchaser in respect of the Proposed AAAGL Acquisition.

"**Thai Law**" means all laws, regulations, statutes, orders, decrees including emergency decrees, royal decrees, ministerial decrees, guidelines, notices, circulars, notifications, judicial interpretations and subordinate legislation of Thailand currently in effect.

"**THB**" means the lawful currency of Thailand.

4. **THAI LAW**

For the purpose of this Opinion Letter, we do not purport to be experts on, or generally familiar with, any laws other than the laws of Thailand. Accordingly, we express no opinion herein with regard to any system of law other than the laws of Thailand as currently applied by the courts of Thailand. This opinion is to be construed in accordance with Thai Law as at the date of this Opinion Letter.

5. **ASSUMPTIONS**

In considering the Reviewed Documents in rendering this Opinion Letter, we have assumed that:

(a) each document in Schedule 1 (*Documents Reviewed*) is complete, correct and in full force and effect and has not been varied or revoked as at the date hereof;

(b) all public records of the Thai Target Group that we have examined are accurate and that the information disclosed in the searches relating to the relevant Constitutional Documents which we conducted against the Thai Target Group at the MOC are true and complete and that such information has not since then been altered and that such searches did not fail to disclose any information that had been delivered for registration but did not appear on the public records at the date of our searches;

(c) the register of shareholders is accurate and up-to-date and such information therein is as specified in the list of shareholders provided as a part of the Constitutional Documents;

(d) the signatures and seals on all the documents submitted to us whether as copies or originals are genuine and any documents delivered to us as copies were complete and correct copies of the originals which are complete and authentic;

(e) each of the Parties has legal personality and is duly incorporated or organised and validly existing and in good standing under the laws of its jurisdiction of incorporation or organisation and of any other jurisdiction in which the conduct of its business or the ownership of its property makes such assumption necessary;

(f) each of the Parties has the capacity, power and authority to enter into, to execute and deliver and to perform their respective obligations under the Agreements;

(g) the due execution and delivery by the Parties of the Agreements;

(h) the Agreements constitute legal, valid and binding obligations of the Parties under the laws of its place of incorporation or organisation and all other applicable laws (excluding the Thai Law);

(i) the execution, delivery and performance by the Parties of the Agreements has been and remains duly approved and authorised by all necessary corporate, governmental and other action in accordance with its constitutive documents, the laws of its place of incorporation or organisation and all other applicable laws, and will not violate any contract or undertaking to which either of the Parties is a party or by which it is bound;

(j) the Agreements which are subject to laws other than the laws of Thailand are legally valid and binding and enforceable under the laws to which they are expressed to be subject;

(k) the completeness and conformity to originals of all documents supplied to us as certified, facsimile or electronic copies and the authenticity of the originals of such documents;

(l) all exemptions, consents, approvals and authorisations of all governmental or other authorities or agencies which are required in connection with the execution, delivery, issue and performance of the Agreements by all Parties thereto (other than under law of Thailand) have been or will be obtained;

(m) each of the factual statements contained in the Agreements is true and correct (other than those expressly opined on herein);

(n) if applicable, all appropriate filings and registrations in connection with the Agreements have been or will be duly effected in all relevant jurisdictions within all applicable time periods;

(o) if applicable, all powers of attorney issued by the Thai Target Group or the Parties or duly appointed attorneys (as the case may be) have not been revoked and remain in full force and effect;

(p) if applicable, none of the assets or rights expressed to be pledged or assigned pursuant to the Agreements has been pledged, assigned, sold or disposed of, or is the subject of any encumbrance, other than pursuant to, or as permitted by the Agreements;

(q) the warranties and representations in the Agreements given by each of the Parties as to factual matters (other than the matters in relation to or on which opinions are given in this Opinion Letter) were, are and will be true and correct in all material respects;

(r) when executing the Agreements, each of the Parties is not and/or was not deemed insolvent within the meaning of the insolvency legislation applicable in Thailand and each of the Parties has not taken any corporate or other action nor has any steps been taken or legal proceedings been started against any Party for the liquidation, winding-up, dissolution, reorganisation, rehabilitation or administration of such Party or for the appointment of a liquidator, receiver, planner, plan administrator, trustee, administrator, administrative receiver or similar officer of any Party or all or any of its assets and that each of the Parties is not insolvent or unable to pay its debts and has not been dissolved; and

(s) the terms and conditions of the Agreements have not been amended, modified, or supplemented by any other agreement or understanding of the parties or waiver of any of the material provisions of the Agreements.

In the course of our examination, we have found nothing to indicate that the above assumptions are not justified but we have not endeavoured to make any independent verification of such factual assumptions. As to any facts material to the opinion expressed herein which were not independently established or verified, we have relied upon certificates, statements and representations of officers and other representatives of the Thai Target Group.

The opinions given in this Opinion Letter are strictly limited to the matters stated in paragraph 6 (*Opinions*) and do not extend to any other matters.

6. **OPINIONS**

Based on the foregoing and subject to the assumptions set out in paragraph 5 and the qualifications set out in paragraph 7 hereof, we are of the opinion that:

6.1 **Corporate Existence**

Each of AAV, TAA and AACCL was duly incorporated and validly existing under the laws of Thailand, and each of them is a separate legal entity capable of suing or being sued in its own name and has power under its Constitutional Documents to carry on its business and to own its assets.

6.2 **Capacity of the Thai Target Group and enforceability of agreements, representations and undertakings**

(a) Each of AAV, TAA and AACCL has full capacity, power and authority under its respective Constitutional Documents to enter into valid and binding agreements, make representations and commit to undertakings in their own respective names in Thailand.

(b) Based on instructions from AAX:

(1) each of AAV, TAA and AACCL is not signatory to any document relating to the Proposed AAAGL Acquisition, including but not limited to the Agreements;

(2) AAX has not entered into any agreements with the Thai Target Group and has not provided any representations or undertakings to the Thai Target Group; and

(3) the Thai Target Group has not provided any representations or undertakings to AAX,

which would otherwise require us to review or opine on.

6.3 **Non-conflict**

The indirect acquisition of the Thai Target Group by AAX under the Agreements will not conflict with, result in a breach or violation of, or constitute a default under any Thai Law or regulation applicable to companies generally and the Thai Target Group's Constitutional Documents.

6.4 **Bankruptcy, Business Reorganization and Liquidation**

Based on our bankruptcy and corporate searches dated 17 September 2024 and 16 September 2024, respectively:

(a) no petition for bankruptcy or business reorganization in respect of each of AAV, TAA and AACCL has been filed with the Central Bankruptcy Court or the Business Reorganization Office; and

(b) no notice or application of bankruptcy, liquidation or dissolution in respect of each of AAV, TAA and AACCL has been registered at the Department of Business Development, Ministry of Commerce.

6.5 **Shareholding Structure**

<u>AAV</u>

Based on the Constitutional Documents:

(a) AAV has a registered capital of THB 1,285,000,000.00 and a paid-up capital of THB 1,284,999,999.70 divided into THB 12,850,000,000 authorized shares and 12,335,714,284 issued ordinary shares, with par value of THB 0.10 each; and

(b) AAAGL holds 5,230,616,671 shares in AAV, constituting approximately 40.71% of shares in AAV.

<u>TAA</u>

Based on the Constitutional Documents:

(a) TAA has a registered capital of THB 967,969,520 which are fully paid up divided into 96,796,952 ordinary shares with a par value of THB 10 per share; and

(b) AAV holds 96,796,945 shares in TAA, constituting approximately 99.99% of shares in TAA.

AACCL

Based on the Constitutional Documents:

(a) AACCL has a registered capital of THB 10,000,000 and a paid-up capital of THB 2,500,000 divided into 1,000,000 ordinary shares with a par value of THB 10 per share; and

(b) TAA holds 999,997 shares in AACCL, constituting approximately 99.99% of shares in AACCL.

6.6 **Consents, registrations and approvals**

Except for the notification to inform the SET in respect of the changes in major shareholder of AAV upon the completion of the Proposed AAAGL Acquisition, it is not necessary that the Agreements be filed, recorded or enrolled with any court or other authority in Thailand, or be notarised or consularised in order to ensure the validity, priority, admissibility in evidence or effectiveness of the Agreements, save for translating the Agreements into Thai language.

6.7 **Ownership of Titles to Securities or Assets of the Thai Target Group in Thailand**

Based on the Constitutional Documents and our legal due diligence exercise as of 26 July 2024:

(a) AAAGL holds 5,230,616,671 shares in AAV, constituting approximately 40.71% of shares in AAV;

(b) AAV holds 96,796,945 shares in TAA, constituting approximately 99.99% of shares in TAA;

(c) TAA holds 999,997 shares in AACCL, constituting 99.99% of all shares issued by AACCL;

(d) TAA holds 250,985 shares (out of 4,171,385 shares) in Teleport Everywhere Pte. Ltd., a company registered under Singapore law, constituting 6.02% of all shares issued by Teleport Everywhere Pte. Ltd.;

(e) TAA owns one title deed no. 32085 and one building located at no. 228 Sanambin Sub-district, Don Mueang District, Bangkok which are subject to (i) a first rank mortgage dated 5 March 2019 with the mortgage amount of THB 1,500,000,000 in favor of KASIKORNBANK Public Company

Limited and (ii) a second rank mortgage dated 14 July 2021 with the mortgage amount of THB 500,000,000 in favor of KASIKORNBANK Public Company Limited;

(f) TAA owns some aircraft, one aircraft A320-216 (MSN 6170) has been subject to business security in favor of Land and Houses Bank Public Company Limited with the maximum secured amount of THB 918,852,216.42; and

(g) Each of the companies within the Thai Target Group does not own any intellectual property in Thailand.

7. **Qualifications**

This opinion is subject to the following qualifications:

(a) **Limitations on public information and searches**

The certified up-to-date corporate information registered with the MOC available does not include information relating to encumbrances, pledges or assignments over corporate assets, nor is it possible to conduct conclusive searches to ascertain whether bankruptcy proceedings have been initiated in Thailand or whether encumbrances, pledges or assignments over such assets exist.

(b) **Limitation periods**

Claims may become barred by prescription under the Civil and Commercial Code of Thailand if they are not enforced within the period of time fixed by Thai Law.

(c) **Need for Thai translation in Thai proceedings**

Thai translations of the Agreements are required as a condition to their admissibility in evidence in the courts of Thailand, except in the Intellectual Property and International Trade Court, which in its discretion may waive the requirement for a Thai translation.

(d) **Admissibility of documents in court**

A Thai court generally requires that original documents be submitted to the court before they can be admitted in evidence. By way of exception, copies of documents may be submitted by a party to legal proceedings before a Thai court either (a) where the parties to the dispute agree to accept such copy for the purposes of the proceedings or (b) where it can be proven that the original cannot be submitted to the court because it has been damaged by force majeure or lost or due to other causes which are not the circumstances that such party is responsible for or the court deems that it is necessary and in the interests of justice to admit such copied document. Where the copy does not indicate that the original was stamped, then the general requirement is for the copy to be stamped in order to be admitted, although we are aware of a number of Supreme Court decisions which have accepted copies without evidence of stamping.

(e) **Authority of Thai court**

The courts of Thailand have absolute discretion in deciding issues regarding the public order and good morals of Thailand.

Any provision, determination, certificate, account record and/or matters stipulated in the Agreements and/or any other relevant documents and/or instruments, to be conclusive may nevertheless be subject to review by the courts of Thailand.

(f) **Double proceedings not permitted**

The taking of proceedings in one court in Thailand may preclude the taking of proceedings in any other court in Thailand on the same subject matter.

(g) **Requirement of reasonableness**

The award of damages requires proof of damage which must be the direct or reasonably foreseeable consequence of the breach. Under the laws of Thailand, compensation shall be for actual damages, losses, costs, and/or expenses, arising from the non-performance, or from special circumstances foreseen or ought to have been foreseen by the party concerned. The courts of Thailand shall have discretion to determine the manner and the extent of compensation according to the circumstances, the amount of which however may not exceed the amount claimed. A right to liquidated damages provided for in the Agreements may be treated as a penalty and the quantum of the liquidated damages and penalty may therefore be reduced in a court of Thailand's discretion if the court is of the view that the penalty is disproportionately high.

(h) **Opinion on commercial terms**

We express no view as to the commercial terms of the Agreements or whether such terms represent the intentions of the Parties and make no comment with regard to the representations that may be made by any party to them.

(i) **Unfair Contract Terms**

Under the Unfair Contract Terms Act B.E. 2540 (1997), a provision in an agreement that is found by Thai courts to be unfair as characterised in such Act would be enforceable only to the extent that it is fair and reasonable. As the determination of unfair terms is at the discretion of the courts, we express no view as to whether any provision in the Agreements might be unfair.

(j) **Declaration of intention**

Under the laws of Thailand, the declaration of intention to a person who is present, including the declaration of intention by telephone or by other communication facilities or by other similar means of communication, is deemed to take effect from the time when the recipient knows of such declaration of intention. However, the declaration of intention to a person who is not present is deemed to take effect from the time when it reaches the recipient. As a result, the provisions contained in an agreement with respect to the assumption of the dates when all notices and other communications shall be deemed to have been duly given, which does not conform to the laws of Thailand as aforementioned, may not be valid and enforceable in Thailand.

(k) **Meaning of references to Thai Law**

Insofar as the opinion expressed herein refers to the law or laws of Thailand, such references include Royal Decrees, Ministerial Decrees, Ministerial Regulations and Notifications, and Supreme Court judgements and are limited to those which are published and available to the public as of the date hereof.

(l) **Fact**

We express no opinion on matters of fact.

The opinions expressed herein are as of the date hereof, and we undertake no responsibility to update this Opinion Letter after the date hereof and assume no responsibility for advising you of any changes with respect to any matters described in the opinion that may occur subsequent to the date hereof or with respect to the discovery subsequent to the date hereof information not previously known to us pertaining to events occurring prior to the date hereof.

This Opinion Letter is rendered to you solely for the purpose of and in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. Save as provided herein, this Opinion Letter shall not be quoted nor shall a copy be given to any person (apart from the addressee and its professional advisers engaged for the Proposed AAAGL Acquisition) without our express prior written consent except where such disclosure is required to be made by the applicable law or is requested by the Bursa Malaysia Securities Berhad, Securities Commission Malaysia or any other regulatory agency and to be enclosed in the Circular.

Yours faithfully,

Chandler MHM Limited

CHANDLER MHM LIMITED

SCHEDULE 1
DOCUMENTS REVIEWED

Part 1 - Constitutional Documents

1. Affidavit of AAV, issued by the MOC on 16 September 2024;
2. Affidavit of TAA, issued by the MOC on 16 September 2024;
3. Affidavit of AACCL, issued by the MOC on 16 September 2024;
4. Memorandum of Association of AAV, certified by the MOC on 16 September 2024;
5. Memorandum of Association of TAA, certified by the MOC on 16 September 2024;
6. Memorandum of Association of AACCL, certified by the MOC on 16 September 2024;
7. Articles of Associations of AAV, certified by the MOC on 16 September 2024;
8. Articles of Associations of TAA, certified by the MOC on 16 September 2024;
9. Articles of Associations of AACCL, certified by the MOC on 16 September 2024;
10. List of Shareholders of TAA as of 5 September 2023, certified by the MOC on 16 September 2024;
11. List of Shareholders of AACCL as of 31 May 2024, certified by the MOC on 16 September 2024;
12. Shareholder Register Book of TAA as of 4 June 2024; and
13. Shareholder Register Book of AACCL as of 3 July 2024.

Part 2 - Opinion Document

1. The Agreements.

OCAMPO& SURALVO
ANTONIO · AURELLANO
LAW OFFICES

6th Floor, Liberty Center
104 HV dela Costa St.
Salcedo Village, Makati
Philippines 1209

Date: 19 September 2024

AirAsia X Berhad
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan, Malaysia

Attention: The Board of Directors

RE: Legal Opinion in connection with the proposed acquisition by AirAsia X Berhad ("AAX") of 100% equity interest in AirAsia Aviation Group Limited ("AAAGL") held by Capital A Berhad ("Capital A") for a purchase consideration of RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 new ordinary shares in AAX at an issue price of RM1.30 each ("Proposed AAAGL Acquisition")

Dear Sirs,

We are a firm of lawyers qualified to advise on the Philippine law and have been instructed by AAX to issue a legal opinion ("**Legal Opinion**") for your benefit in connection with AAX's circular to shareholders ("**Circular**") in respect of, amongst others, the Proposed AAAGL Acquisition resulting in an indirect acquisition of (i) AirAsia Inc. ("**AAI**"), (ii) Philippines AirAsia, Inc. ("**PAA**"), (iii) Asiawide Airways Inc. ("**AWAI**"), and (iv) AA Com Travel Philippines Inc. ("**AACTP**") (collectively, the "**Philippines Subsidiaries**"), all of which are companies incorporated under Philippine law.

In providing this Legal Opinion, we have assumed that each of the parties in respect of the Agreements (as defined below) pursuant to the Proposed AAAGL Acquisition has:

(a) the legal personality and is duly incorporated or organised and validly existing and in good standing under the laws of its jurisdiction of incorporation or organisation and of any other jurisdiction in which the conduct of its business or the ownership of its property makes such assumption necessary; and

(b) the capacity, power and authority to enter into, to execute and deliver and to perform their respective obligations under the following agreements (collectively, the "**Agreements**"):

   (i) the conditional share sale and purchase agreement dated 25 April 2024 entered into between Capital A (as seller) and AirAsia Group Berhad (*formerly known as AirAsia Aviation Group Sdn. Bhd.*) ("**NewCo**") (as purchaser) in respect of the sale and purchase of the entire equity interest in AAAGL ("**AAAGL SSPA**");

   (ii) the supplemental agreement to the AAAGL SSPA dated 26 July 2024 entered into between Capital A (as seller), NewCo (as original purchaser) and AAX (as new purchaser) for the purpose of making certain amendments and variations to the AAAGL SSPA ("**Supplemental Agreement**"); and

(iii) the second supplemental agreement to the AAAGL SSPA dated 4 September 2024 entered into between Capital A and AAX for the purpose of making certain amendments and variations to the AAAGL SSPA (as amended and supplemented by the Supplemental Agreement).

As to questions of fact material to our conclusions expressed herein, we have not independently established such facts, and we relied solely upon the statements of fact contained in the documents we have examined. We have no reason to believe that such reliance was not justified.

The opinions hereinafter set forth are limited to matters of Philippine law, and no opinion is expressed as to the laws of any other jurisdiction other than the Republic of the Philippines.

In rendering this Legal Opinion, we have conducted a search of the records of the Securities and Exchange Commission ("**SEC**") as of 30 August 2024 and examined the following documents:

1. **<u>AAI</u>**

(a) The Certificate of Filing of the Amended Articles of Incorporation of AAI, bearing the seal of the SEC, dated 4 April 2014;
(b) The notarized Amended Articles of Incorporation of AAI dated 4 April 2014;
(c) The notarized Certificate of Amendment of the Articles of Incorporation of AAI dated 18 March 2014; and
(d) The notarized General Information Sheet ("**GIS**") of AAI dated 17 April 2024 and submitted by AAI to the SEC on 17 April 2024.

2. **<u>PAA</u>**

(a) The Certificate of Filing of the Amended Articles of Incorporation of PAA, bearing the seal of the SEC, dated 14 September 2015;
(b) The notarized Amended Articles of Incorporation of PAA dated 14 September 2015;
(c) The notarized Directors' Certificate of the Amendment of the Articles of Incorporation of PAA dated 12 August 2015; and
(d) The notarized GIS of PAA dated 1 July 2024 and submitted by AAI to the SEC on 26 June 2024.

3. **<u>AWAI</u>**

(a) The Certificate of Filing of the Amended Articles of Incorporation of AWAI, bearing the seal of the SEC, dated 14 October 2008;
(b) The notarized Amended Articles of Incorporation of AWAI dated 14 October 2008;
(c) The notarized Directors' Certificate of the Amendment of the Articles of Incorporation of AWAI dated 25 September 2008; and
(d) The notarized GIS of AWAI dated 12 January 2023 and submitted by AWAI to the SEC on 17 January 2023.

4. **<u>AACTP</u>**

(a) The Certificate of Incorporation of AACTP, bearing the seal of the SEC, dated 19 June 2020;
(b) The Articles of Incorporation of AACTP dated 19 June 2020; and
(c) The notarized GIS of AACTP dated 16 July 2024 and submitted by AACTP to the SEC on 16 July 2024.

Based upon the foregoing, we opine as follows:

1. Corporate Existence

Each of the Philippines Subsidiaries is duly incorporated and validly existing under the laws of the Republic of Philippines, and each of them has the capacity and the corporate powers to enter into valid and binding agreements, make representations, commit to undertakings, and to sue and be sued under its corporate name.

2. Ownership of title to the shares in the Philippines Subsidiaries

Based on the latest GIS and constitutional documents of the respective Philippine Subsidiaries:

AAI

(a) AAI has an issued share capital/subscribed capital of 597,510,500.00 Philippine pesos ("**PHP**") divided into 5,975,105 common shares;

(b) AAAGL holds 2,390,039 shares in AAI, constituting approximately 40% of shares in AAI; and

(c) AACTP holds 3,585,059 shares in AAI, constituting approximately 60% of shares in AAI.

PAA

(a) PAA has an issued share capital/subscribed capital of PHP595,000,000.00 divided into 171,078,431 common shares and 423,921,569 preferred shares; and

(b) AAI holds 169,078,424 common shares and 423,921,569 preferred shares in PAA, constituting approximately 99.66% of shares in PAA.

AWAI

(a) AWAI has an issued share capital/subscribed capital of PHP125,000,000.00 divided into 1,250,000 common shares; and

(b) AAI holds 1,249,991 common shares in AWAI, constituting approximately 100% of shares in AWAI.

AACTP

(a) AACTP has an issued share capital/subscribed capital of PHP10,500,000.00 divided into 10,500,000 common shares; and

(b) AAAGL holds 10,499,995 common shares in AACTP, constituting approximately 100% of shares in AACTP.

3. Enforceability of agreements, representations and undertakings given by the Philippines Subsidiaries and the laws of the Republic of the Philippines

Based on the confirmation from AAX, the Philippines Subsidiaries are not signatory to any Agreements relating to the Proposed AAAGL Acquisition, and none of the Philippines

Subsidiaries has provided representations or undertakings to AAX in relation to the Proposed AAAGL Acquisition, which would otherwise require us to review or opine on.

AAX has not entered into any agreements with any of the Philippines Subsidiaries and has not provided any representation or undertakings to the Philippines Subsidiaries in relation to the Proposed AAAGL Acquisition, which would otherwise require us to review or opine on.

4. Rehabilitation, insolvency and liquidation

Based on our Corporate Searches and our Litigation Searches dated 18 September 2024 for AAI, PAA and AWAI; and 19 September 2024 for AACTP, no petition for rehabilitation and liquidation has been instituted against any of the Philippines Subsidiaries with the Philippine Regional Trial Courts with jurisdiction over such Philippines Subsidiaries.

This Legal Opinion is addressed to AAX solely for its benefit in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. Save for Mah-Kamariyah & Philip Koh, Advocates and Solicitors and Inter-Pacific Securities Sdn Bhd as well as any other advisers to AAX in relation to the Proposed AAAGL Acquisition, this Legal Opinion is not to be transmitted to anyone else nor is it to be relied upon by anyone else or used for any other purpose or quoted or referred to in any public document or filed with anyone without our express consent, except where such disclosure is required to be made by applicable law or is requested by Bursa Malaysia Securities Berhad or any other regulatory agency and to be enclosed in the Circular.

Very truly yours,

OCAMPO & SURALVO LAW OFFICES

By:

Jude B. Ocampo
Partner

DENTONS HPRP

Hanafiah Ponggawa & Partners
Wisma 46 - Kota BNI, 32nd & 41st Floors
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Indonesia
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Ref. No.: 1324/HPRP/IX/24

Jakarta, 20 September 2024

AirAsia X Berhad
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan, Malaysia

Dear Sirs,

Legal Opinion in connection with the proposed acquisition by AirAsia X Berhad ("AAX") of 100% equity interest in AirAsia Aviation Group Limited ("AAAGL") held by Capital A Berhad ("Capital A") for a purchase consideration of RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 new ordinary shares in AAX at an issue price of RM1.30 each ("Proposed AAAGL Acquisition")

We, **Hanafiah Ponggawa & Partners** ("we", "us", "our" or "**Dentons HPRP**"), act as the Indonesian legal counsel to AAX and have been instructed to issue a legal opinion ("**Legal Opinion**") in connection with AAX's circular to shareholders ("**Circular**") with respect to, amongst others, the proposed acquisition by AAX of 100% equity interest in AAAGL, a wholly-owned subsidiary of Capital A. Capital A, through AAAGL, has indirect equity interests in the Indonesian subsidiaries namely (i) PT AirAsia Indonesia, Tbk. ("**AAI**"), (ii) PT Indonesia AirAsia ("**IAA**"), and (iii) PT Garda Tawang Reksa Indonesia ("**GTRI**") (collectively, the "**Indonesian Subsidiaries**").

The opinions expressed herein are limited to questions arising under the laws of the Republic of Indonesia and are based only on laws and regulations in force as of the date of this Legal Opinion. We do not purport to express an opinion on any questions arising under the laws of any other jurisdiction. We have made no investigation of the laws of any country, state, or jurisdiction other than the laws of the Republic of Indonesia.

For the purposes of providing this Legal Opinion, we have examined and relied on the list of reviewed documents ("**Documents**") and relevant laws and regulations listed in **Schedule I** of this Legal Opinion.

A. ASSUMPTIONS

In rendering this Legal Opinion, we have assumed:

1. the genuineness of all signatures to all Documents viewed by us, the authenticity of all Documents submitted to us as originals, the conformity with the originals of all Documents submitted to us as copies;

2. that the originals or photocopies of all documents submitted to us to-date as listed in **Schedule I** of this Legal Opinion are complete and there are no amendments, additions, replacements and exceptions to such documents;

3. that all facts stated in the Documents as listed in **Schedule I** of this Legal Opinion submitted to us are correct, and that no relevant matter was withheld from us, whether deliberately or inadvertently; note that we have made no independent investigation of the facts expressed therein;

4. the accuracy and correctness of statements made by the management and/or personnel of the Indonesian Subsidiaries and verbal information provided by them;

5. the Indonesian Subsidiaries are neither registered nor involved under any legal proceedings under the jurisdiction of the District Court of Tangerang;

6. that the Indonesian Subsidiaries will not execute or has not executed any documents for the purposes of concluding the Proposed AAAGL Acquisition ("**Transaction Documents**"); and

7. under Indonesian legislation, for a public company, the shareholders register shall be maintained and prepared by the Security Administration Bureau as the Shares Registrar, instead of the relevant board of directors of the public company. Therefore, we assume that all information contained in the shareholders register maintained by the Shares Registrar is true, accurate, and not misleading in any manner. Consequently, the preparation of the shareholders register by the Shares Registrar relieves the board of directors of the obligation to prepare and maintain the shareholders register under the Law No. 40 of 2007 on Limited Liability Company as lastly amended by Law No. 6 of 2023 on Enactment of the Regulation of the Government in Lieu of Law No. 2 of 2022 on Job Creation Into Law ("**Company Law**").

B. OPINIONS

Based on the assumptions and matters relied upon stated above and subject to the qualifications and limitations stated below, unless a court of competent jurisdiction opines otherwise, it is our opinions that:

1. <u>Due incorporation of the Indonesian Subsidiaries</u>

Each of the Indonesian Subsidiaries is a limited liability company duly incorporated for an indefinite period and validly existing under the laws of the Republic of Indonesia and has the legal capacity to file suit and has a suit filed against it in its own name.

Based on our checking through the official website of the Directorate General of General Law Administration, the Ministry of Law and Human Rights of Indonesia ("**MOLHR Database**") as well as the court searches results as listed in **Section B, Schedule I** of this Legal Opinion, to the best of our knowledge, no bankruptcy petitions have been presented nor have bankruptcy orders been made against the Indonesian Subsidiaries, no suspension of payment has been applied for by the Indonesian Subsidiaries, and no resolutions have been passed for the winding up or liquidation of the Indonesian Subsidiaries.

2. <u>Ownership of title to the shares directly or indirectly owned by AAAGL in the Indonesian Subsidiaries</u>

2.1 According to the Company Law, the shareholders of a company may only exercise their rights vested over their ownerships of shares, which are amongst others, (i) attending and voting at the General Meeting of Shareholders; (ii) receiving payment of dividends and the remainder of assets from liquidation, and (iii) exercising other rights under the Company Law, upon their registration in the shareholder's register.

2.2 The shareholders shall be provided with evidence of their ownership of shares of the company, which can be in the form of shares certificate. However, the absence of shares certificate does not consequently nullify the shareholders' ability to exercise their rights over shares as their rights over shares are vested upon their registration of ownership in the shareholder's register of the company.

2.3 In connection with AAI:

AAAGL is registered as one of the shareholders in AAI, and it has valid legal title to the shares it holds in AAI. AAI, as a listed company, shall not issue and distribute share certificates to its shareholders, as every share of a listed company is traded in scripless form.

According to AAI's consolidated financial statements as of 31 December 2023 and shareholder register as of 30 June 2024 issued by the Security Administration Bureau (Shares Registrar) available at the official website of the Indonesia Stock Exchange on 10 July 2024, AAAGL is listed as one of the shareholders of AAI, holding 4,942,013,300 shares with a total nominal value of IDR1,235,503,325,000, representing 46.25% of the shares issued by AAI.

2.4 In connection with IAA:

AAAGL is registered as one of the shareholders of IAA and it has valid legal title to the shares it holds in IAA.

Further, according to our searches at the MOLHR Database, as of 18 July 2024, (i) AAAGL is listed as one of the shareholders of IAA, holding 88,200 shares with a total nominal value of IDR88,200,000,000, representing 21% of the shares issued by IAA; and (ii) AAI is listed as one of the shareholders of IAA, holding 241,066 shares with a total nominal value of IDR241,066,000,000, representing 57% of the shares issued by IAA.

2.5 In connection with GTRI:

IAA is registered as one of the shareholders of GTRI and it has valid legal title to the shares it holds in GTRI.

Further, according to our searches at the MOLHR Database, as of 18 July 2024, IAA is listed as one of the shareholders of GTRI, holding 10,050 shares with a total nominal value of IDR10,050,000,000, representing 67% of the shares issued by GTRI.

3. Enforceability of agreements, representations and undertakings given by the Indonesian Subsidiaries under the laws of the Republic of Indonesia

3.1 Based on confirmation from AAX, the Indonesian Subsidiaries are not signatory to any Transaction Documents relating to the Proposed AAAGL Acquisition, and neither of the Indonesian Subsidiaries has provided representations or undertakings to AAX in relation to the Proposed AAAGL Acquisition, which would otherwise require us to review or opine on.

3.2 AAX has not entered into any agreements with any of the Indonesian Subsidiaries and has not provided any representation or undertakings to the Indonesian Subsidiaries in relation to the Proposed AAAGL Acquisition, which would otherwise require us to review or opine on.

C. QUALIFICATIONS

This opinion is subject to the following qualifications:

1. This Legal Opinion is limited to and relates solely to the laws of the Republic of Indonesia, as at the date of this Legal Opinion. This Legal Opinion is confined to matters of the laws of the Republic of Indonesia, and is given on the basis that it will be governed by and construed in accordance with such laws. Accordingly, we do not express or imply any report as to any laws

other than the laws of the Republic of Indonesia and we have made no investigation of any other laws which may be relevant to the documents submitted to us.

2. This Legal Opinion will not always be operable in some circumstances, such as:

   a. its validity may be influenced by judgments permitting the operability of other evidence to alter the terms or the interpretations of the documents;

   b. claims might be nullified according to Indonesian law in connection with the expiration of claims or actions or lawsuits to be submitted; and

   c. enforcement may be affected by public policy. The Indonesian Courts will not enforce obligations which are contrary to public policy.

3. Indonesian judges operate in an inquisitorial legal system, have very broad fact-finding powers and a high level of discretion in relation to the matter in which those powers are exercised. Consequently, Indonesian judges can sometimes be influenced by factors, issue and evidence which may not be immediately apparent on the face of the court document in question.

4. This Legal Opinion is prepared based on and is limited to information provided by the Indonesian Subsidiaries in (i) the Documents listed in **Schedule I** of this Legal Opinion made available to us up to 12 July 2024; and (ii) virtual meetings with the management of the Indonesian Subsidiaries, and we have not attempted independently to verify all the information provided by the Indonesian Subsidiaries.

5. We are not rendering any opinion with regard to commercial, taxation, accountancy, finance, and operations.

6. While we are legal counsel advising on matters of Indonesian law and qualified to practice under the laws of the Republic of Indonesia, this Legal Opinion shall not be construed as surety or a guarantee.

D. RESERVATIONS

1. This Legal Opinion is given on 20 September 2024 and is delivered only in respect of Indonesian law in force as of 30 August 2024. This opinion is provided to you as a legal opinion only and not as a guarantee or warranty of the matters discussed herein or in the documents referred to herein.

2. This opinion is addressed to the addressee hereof solely for the benefit of such addressee hereof in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. Save for Mah-Kamariyah & Philip Koh, Advocates and Solicitors and Inter-Pacific Securities Sdn Bhd as well as any other advisers to AAX in relation to the Proposed AAAGL Acquisition, it is not to be transmitted to anyone else nor is it to be relied upon by anyone else or for any other purpose or quoted or referred to in any public document or filed with anyone without our express written consent except where such disclosure is required to be made by applicable law or is requested by Bursa Malaysia Securities Berhad or any other regulatory agency. This Legal Opinion will be annexed to the Circular in respect of an extraordinary general meeting to be convened to approve, amongst others, the Proposed AAAGL Acquisition.

3. Our views on liability are subject to, amongst others, the discretion of the court or arbitrator, the evidence adduced in court or in arbitration and the factual matrix of the relevant matter before the

court or arbitrator. Accordingly, we do not make any representation as to the actual outcome of any matter.

This Legal Opinion is limited to the matters addressed herein and is not to be read as an opinion with respect to any other matter.

Yours faithfully,
Hanafiah Ponggawa & Partners

Hanafiah Ponggawa & Partners

DENTONS HPRP

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Schedule I

List of Reviewed Regulations and Documents

A. Regulations

1. Law No. 40 of 2007 on Limited Liability Company as lastly amended by Law No. 6 of 2023 on Enactment of the Regulation of the Government in Lieu of Law No. 2 of 2022 on Job Creation Into Law;

2. Law No. 1 of 2009 on Aviation as amended by Law No. 6 of 2023 on Enactment of the Regulation of the Government in Lieu of Law No. 2 of 2022 on Job Creation Into Law ("**Aviation Law**"); and

3. Government Regulation No. 32 of 2021 on the Implementation on Aviation Sector ("**GR 32/2021**").

B. Searches

Company Searches

1. Company profile of AAI generated from the official website of the MOLHR, accessed on 18 July 2024;

2. Company profile of IAA generated from the official website of the MOLHR, accessed on 18 July 2024; and

3. Company profile of GTRI generated from the official website of the MOLHR, accessed on 18 July 2024.

Court Searches

1. AAI

    a. Statement Letter of Indonesian National Arbitration Board (*Badan Arbitrase Nasional Indonesia* – "**BANI**") No. 24.183/SKB/VI/BANI/WD dated 28 June 2024;

    b. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1413/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Intellectual Property Rights);

    c. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1412/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Bankruptcy and Suspension of Debt Payments);

    d. Statement Letter of the Industrial Relations Court at the District Court of Serang No. 33/PAN.04.W29-U1/SKET/VII/2024 dated 3 July 2024; and

    e. Statement Letter of the State Administrative Court of Serang No. 870/KPTUN.W2-TUN3/HK2.7/VII/2024 dated 3 July 2024.

2. IAA

    a. Statement Letter of BANI No. 24.185/SKB/VI/BANI/WD dated 28 June 2024;

    b. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1411/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Intellectual Property Rights);

c. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1410/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Bankruptcy and Suspension of Debt Payments);

d. Statement Letter of the Industrial Relations Court at the District Court of Serang No. 31/PAN.04.W29-U1/SKET/VII/2024 dated 3 July 2024; and

e. Statement Letter of the State Administrative Court of Serang No. 864/KPTUN.W2-TUN3/HK2.7/VII/2024 dated 3 July 2024.

3. <u>GTRI</u>

a. Statement Letter of BANI No. 24.184/SKB/VI/BANI/WD dated 28 June 2024;

b. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1409/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Intellectual Property Rights);

c. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1408/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Bankruptcy and Suspension of Debt Payments);

d. Statement Letter of the Industrial Relations Court at the District Court of Serang No. 32/PAN.04.W29-U1/SKET/VII/2024 dated 3 July 2024; and

e. Statement Letter of the State Administrative Court of Serang No. 866/KPTUN.W2-TUN3/HK2.7/VII/2024 dated 3 July 2024.

C. Documents

1. <u>AAI</u>

a. State Gazette of the Republic of Indonesia (*Berita Negara Republik Indonesia* – "**BNRI**") No. 2460 and Supplement to BNRI No. 44 dated 2 June 1992 on the establishment of AAI;

b. Deed of Minutes of Extraordinary GMS of AAI No. 33 dated 27 June 2012, made before Recky Francky Limpele, S.H., Notary in Jakarta, which has been (i) notified to the Ministry of Law and Human Rights ("**MOLHR**") as evidenced by the Notification on the Amendment of the Company's Articles of Association ("**AOA**") from the MOLHR No. AHU-AH.01.10-29271 dated 7 August 2012, (ii) registered in the Company Registry No. AHU-0072112.AH.01.09.Tahun 2012 dated 7 August 2012, and (iii) announced in the BNRI No. 8367/L and supplement of BNRI No. 99 dated 10 December 2013;

c. Deed of Minutes of General Meeting of Shareholders ("**GMS**") of AAI No. 156 dated 20 June 2014, made before Buntario Tigris Darmawa Ng, S.H., S.E., M.H., Notary in Jakarta;

d. Deed of GMS Resolution of AAI No. 70 dated 9 July 2015, made before Buntario Tigris Darmawa Ng, S.H., S.E., M.H., Notary in Jakarta;

e. Deed of AOA Amendment of AAI No. 81 dated 29 December 2017, made before Liestiani Wang, S.H., M.Kn., Notary in Jakarta, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0027936.AH.01.02.Tahun 2017 dated 29 December 2017, (ii) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.03-0206732 dated 29 December 2017, and (iii) registered in the Company Registry No. AHU-0167078.AH.01.11.TAHUN 2017 dated 29 December 2017;

f. Deed of GMS Resolution of AAI No. 86 dated 29 December 2017, made before Liestiani Wang, S.H., M.Kn., Notary in Jakarta;

g. Deed of AOA Amendment of AAI No. 39 dated 16 November 2017, made before Liestiani Wang, S.H., M.Kn., Notary in Jakarta;

h. Deed of GMS Resolution of AAI No. 138 dated 24 May 2018, made before Liestiani Wang, S.H., M.Kn., Notary in Jakarta;

i. Deed of AOA Amendment of AAI No. 78 dated 24 September 2020, made before Jose Dima Satria, S.H., M.Kn., Notary in Jakarta, which has been (i) notified to the MOLHR as evidenced by the Notification on the Amendment of the Company's AOA from the MOLHR No. AHU-01.03-0400775 dated 22 October 2020, and (ii) registered in the Company Registry No. AHU-0178450.AH.01.11.TAHUN 2020 dated 22 October 2020;

j. Deed of GMS Resolution of AAI No. 163 dated 2 November 2022, made before Jose Dima Satria, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.09-0071983 dated 2 November 2022, and (ii) registered in the Company Registry No. AHU-0219787.AH.01.11.TAHUN 2022 dated 2 November 2022;

k. Deed of GMS Resolution of AAI No. 185 dated 24 March 2022, made before Jose Dima Satria, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.03-0200208 dated 24 March 2022, and (ii) registered in the Company Registry No. AHU-0058736.AH.01.11.TAHUN 2022 dated 24 March 2022;

l. Consolidated financial statements as of 31 December 2023 available at the official website of the Indonesia Stock Exchange on 27 May 2024; and

m. Monthly Report of Securities Holders Registration made by PT Bima Registra as Security Administration Bureau of AAI under its Letter dated 2 May 2024.

2. IAA

a. Deed of Establishment of IAA No. 15 dated 28 September 1999, made before Budiono, S.H., Notary in Jakarta which has been (i) ratified by the Ministry of Justice ("**MOJ**") by virtue of MOJ Decree No. C-19644.HT.01.01.TH.99 dated 6 December 1999, and (ii) announced in the BNRI No. 4571 and Supplement to BNRI No. 66 dated 18 August 2000;

b. Deed of Minutes of Extraordinary GMS of IAA No. 5 dated 4 March 2000, made before Budiono, S.H., Notary in Jakarta, which has been approved by the MOJ by virtue of MOJ Decree No. C-15334.HT.01.TH.2000;

c. Deed of Minutes of Extraordinary GMS of IAA No. 37 dated 23 February 2001, made before Siti Pertiwi Henny Singgih, S.H., Notary in Jakarta;

d. Deed of GMS Resolution of IAA No. 4 dated 15 December 2003, made before Anne Djoenadi, S.H., MBA., Notary in Bogor Regency;

e. Deed of GMS Resolution of IAA No. 12 dated 29 October 2004, made before Anne Djoenadi, S.H., MBA., Notary in Bogor Regency;

f. Deed of GMS Resolution of IAA No. 8 dated 11 October 2006, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta which has been notified to the MOLHR as evidenced by the Receipt of Notification on the Amendment of the Company's AOA from the MOLHR No. W7-HT.01.04-4456 dated 5 December 2006;

g. Deed of GMS Resolution of IAA No. 8 dated 11 October 2006, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-12981.AH.01.02.Tahun 2008 dated 17 March 2008, (ii) registered in the Company Registry No. AHU-0019182.AH.01.09.Tahun 2008 dated 17 March 2008, and (iii) announced in the BNRI No. 9740 and supplement of BNRI No. 28 dated 7 April 2009;

h. Deed of GMS Resolution of IAA No. 32 dated 15 December 2011, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been (i) notified to the MOLHR as evidenced by the Receipt of Notification on the Amendment of the Company's AOA from the MOLHR No. AHU-AH.01.10-03135 dated 31 January 2012, and (ii) registered in the Company Registry No. AHU-0008113.AH.01.09.Tahun 2012 dated 31 January 2012;

i. Deed of Shareholders' Resolutions of IAA No. 3 dated 6 December 2012, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been notified to the MOLHR as evidenced by the Receipt of Notification on the Change of the Company's Data No. AHU-AH.01.10-09902 dated 18 March 2013 and registered in the Company Registry No. AHU-0023750.AH.01.09.Tahun 2013 dated 18 March 2013;

j. Deed of GMS Resolution of IAA No. 9 dated 5 April 2012, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-27159.AH.01.02.Tahun 2012 dated 22 May 2012, and (ii) registered in the Company Registry No. AHU-0045348.AH.01.09.Tahun 2012 dated 22 May 2012;

k. Deed of GMS Resolution of IAA No. 49 dated 25 November 2014, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been (i) notified to the MOLHR as evidenced by the Notification on the Amendment of the Company's AOA from the MOLHR No. AHU-08848.40.21.2014 dated 25 November 2014, and (ii) registered in the Company Registry No. AHU-0122874 dated 25 November 2014;

l. Deed of Circular Resolution of IAA No. 4 dated 28 December 2017, made before Rizki Meuthia, S.H., M.Kn., Notary in Bogor Regency which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0027980.AH.01.02.Tahun 2017 dated 29 December 2017, (ii) notified to the MOLHR as evidenced by the Notification on the Amendment of the Company's AOA from the MOLHR No. AHU-01.03-0206886 dated 29 December 2017, (iii) registered in the Company Registry No. AHU-016720.AH.01.11.TAHUN 2017 dated 29 December 2017, and (iv) announced in the BNRI No. 10915 and supplement of BNRI No. 27 dated 29 December 2017;

m. Deed of GMS Resolution of IAA No. 40 dated 22 August 2017, made before Edward Suharjo Wiryomartani, S.H., M.Kn., Notary in Jakarta, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0017648.AH.01.02.Tahun 2017 dated 28 August 2017, and (ii) registered in the Company Registry No. AHU-0106456.AH.01.11.TAHUN 2017 dated 28 August 2017;

n. Deed of Circular Resolution of IAA in lieu of a GMS No. 1 dated 9 October 2018, made before Rizki Meuthia, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-AH.01.03-0251865 dated 11 October 2018, and (ii) registered in the Company Registry No. AHU-0134908.AH.01.11.TAHUN 2018 dated 11 October 2018;

o. Deed of GMS Resolution of IAA No. 10 dated 24 October 2019, made before Rizki Meuthia, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No.

AHU-01.03-0351299 dated 24 October 2019, and (ii) registered in the Company Registry No. AHU. 01.09.0203968.AH.11 TAHUN 2019 dated 25 October 2019;

p. Deed of Circular Resolution of IAA No. 1 dated 1 October 2020, made before Rizki Meuthia, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-AH.01.03-0393813 dated 2 October 2020, and (ii) registered in the Company Registry No. AHU-0166079.AH.01.11.TAHUN 2020 dated 2 October 2020;

q. Deed of Circular Resolution of IAA No. 3 dated 16 April 2020, made before Rizki Meuthia, S.H., M.Kn., Notary in Tangerang Regency, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0030431.AH.01.02.Tahun 2020 dated 17 April 2020, and (ii) registered in the Company Registry No. AHU-0069912.AH.01.11.TAHUN 2020 dated 17 April 2020;

r. Deed of GMS Resolution of IAA No. 5 dated 4 October 2022, made before Anne Djoenardi, S.H., MBA.., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.09-0061979 dated 4 October 2022, and (ii) registered in the Company Registry No. AHU-0198025.AH.01.11.TAHUN 2022 dated 4 October 2022;

s. Shareholders Registry of IAA dated 28 June 2024;

t. Shares Certificates No. 1 dated 10 July 2024 registered under the name of PT Fersindo Nusaperkasa for its ownership of shares in IAA;

u. Shares Certificates No. 2 dated 10 July 2024 registered under the name of AAAGL for its ownership of shares in IAA; and

v. Shares Certificates No. 3 dated 10 July 2024 registered under the name of AAI for its ownership of shares in IAA.

3. GTRI

a. Deed of Establishment of GTRI No. 24 dated 24 October 2016, made before Anne Djoenardi, S.H., MBA., Notary in Jakarta which has been ratified by the MOLHR by virtue of MOLHR Decree No. AHU-0050797.AH.01.01.TAHUN 2016 dated 15 November 2016;

b. Deed of Circular Resolution of GTRI No. 4 dated 23 April 2018, made before Rizki Meuthia, S.H., M.Kn., Notary in Tangerang Regency, which has been notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.03-0166609 dated 26 April 2018, and (iii) registered in the Company Registry No. AHU-0059484.AH.01.11.TAHUN 2018 dated 26 April 2018;

c. Deed of GMS Resolution of GTRI No. 9 dated 20 September 2018, made before Rizki Meuthia, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.03-0246432 dated 26 September 2018, and (ii) registered in the Company Registry No. AHU-0126969.AH.01.11.TAHUN 2019 dated 26 September 2018;

d. Deed of Circular Resolution in Lieu of an Extraordinary GMS of GTRI No. 8 dated 27 March 2019, made before Rizki Meuthia, S.H., M.Kn., Notary in Tangerang Regency, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0017631.AH.01.02.Tahun 2019 dated 30 March 2019, and (ii) registered in the Company Registry No. AHU-0053375.AH.01.11.TAHUN 2019 dated 20 March 2019, and (iii) announced in the BNRI No. 8 and supplement of the BNRI No. 4133 dated 28 January 2020;

e. Shareholders Registry of GTRI dated 28 June 2024;

f. Shares Certificates No. 1 dated 10 July 2024 registered under the name of IAA for its ownership of shares in GTRI; and

g. Shares Certificates No. 2 dated 10 July 2024 registered under the name of PT Fersindo Nusaperkasa for its ownership of shares in GTRI.

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Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at December 31, 2021 and 2020 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2021 and 2020;
- the statements of total comprehensive income for the years ended December 31, 2021 and 2020;
- the statements of changes in equity for the years ended December 31, 2021 and 2020;
- the statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Material Uncertainty regarding Going Concern

We draw attention to Note 1.2 in the financial statements, which indicates that the Company has incurred losses from its operations amounting to P6,435,154,777 for the year ended December 31, 2021 (2020 - P6,760,340,466), which result to accumulated deficit and a capital deficiency of P31,998,064,185 and P31,308,856,713 as at December 31, 2021 (2020 - P25,562,909,408 and P25,080,551,171), respectively. The Company continues to be adversely affected by the COVID-19 pandemic, not only to the local travel industry, but on the international landscape as well. These conditions indicate that a material uncertainty exist that may cast significant doubt on the Company's ability to continue as a going concern. Management's plans for future actions are disclosed in Note 1.2. We have performed sufficient and appropriate audit procedures to evaluate management's plans for such future actions to sustain its operations. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

In preparing the financial statements, 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audits of the Financial Statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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.

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As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 management.

- Conclude on the appropriateness of 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

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

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Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Page 4

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Jan Michael L. Reyes
Partner
CPA Cert. No. 104972
PTR No. 0011393, issued on January 6, 2022, Makati City
SEC A.N. (individual) as general auditors 104972-SEC, Category A;
valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements
TIN 215-692-059
BIR A.N. 08-000745-142-2022; issued on January 25, 2022; effective until January 24, 2025
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
May 2, 2022

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Isla Lipana & Co.

Statement Required by Rule 68
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

We have audited the financial statements of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at and for the year ended December 31, 2021, on which we have rendered the attached report dated May 2, 2022.

In compliance with SRC Rule 68 and based on the certification received from the Company's corporate secretary and the results of our work done as at December 31, 2021, the Company has two (2) shareholders owning one hundred (100) or more shares each.

Isla Lipana & Co.

Jan Michael L. Reyes
Partner
CPA Cert. No. 104972
PTR No. 0011393, issued on January 6, 2022, Makati City
SEC A.N. (individual) as general auditors 104972-SEC, Category A;
valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements
TIN 215-692-059
BIR A.N. 08-000745-142-2022; issued on January 25, 2022; effective until January 24, 2025
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
May 2, 2022

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 8845 2728, F: +63 (2) 8845 2806, www.pwc.com/ph

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Financial Position
As at December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
ASSETS			
Current assets			
Cash	2	41,855,266	40,393,979
Trade and other receivables, net	3	149,892,446	140,536,942
Expendable parts, materials and supplies	4	327,503,329	372,103,457
Prepayments and other current assets	5	336,319,967	540,985,334
Due from a related party	18	1,798,389,785	365,545,738
Total current assets		2,653,960,793	1,459,565,450
Non-current assets			
Property and equipment, net	6	8,149,410,514	10,519,769,203
Deposits	7	785,599,196	749,192,187
Total non-current assets		8,935,009,710	11,268,961,390
Total assets		11,588,970,503	12,728,526,840
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables and other current liabilities	9	14,302,912,397	11,680,992,315
Unearned revenue	23.16	1,709,973,301	1,751,429,101
Loans payable	8	974,229,767	916,994,530
Provisions for claims	9	330,106,424	330,106,424
Lease liabilities, current portion	16	6,432,937,373	4,531,976,112
Provision for aircraft redelivery cost, current portion	16	41,245,789	23,371,684
Derivative financial liabilities, current portion	10	-	107,360,944
Due to related parties	18	10,476,727,516	10,134,309,886
Total current liabilities		34,268,132,567	29,476,540,996
Non-current liabilities			
Lease liabilities, net of current portion	16	8,180,093,127	7,784,377,161
Provision for aircraft redelivery costs, net of current portion	16	109,198,848	110,147,338
Retirement benefit obligation	17	340,402,674	438,012,516
Total non-current liabilities		8,629,694,649	8,332,537,015
Total liabilities		42,897,827,216	37,809,078,011
Capital deficiency			
Share capital	11	595,000,000	595,000,000
Deficit		(31,998,064,185)	(25,562,909,408)
Cash flow hedge reserves	10	-	(80,417,970)
Remeasurement gain on retirement benefit obligation	17	94,207,472	(32,223,793)
Total capital deficiency		(31,308,856,713)	(25,080,551,171)
Total liabilities and capital deficiency		11,588,970,503	12,728,526,840

(The notes on pages 1 to 55 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Total Comprehensive Income
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
Revenue			
Passenger		1,691,564,362	5,298,877,051
Cargo		186,975,260	254,688,289
Other revenues	12	229,488,340	813,357,122
		2,108,027,962	6,366,922,462
Cost of services	13	(6,002,494,995)	(11,571,814,324)
Gross loss		(3,894,467,033)	(5,204,891,862)
Operating expenses	14	(954,511,036)	(1,381,220,937)
Other income (expenses), net			
Fair value gain (loss) on derivatives	10	26,942,974	(141,651,741)
Other income (expenses), net	15	(998,549,791)	554,062,284
Finance costs	15	(614,569,891)	(586,638,210)
Loss before income tax		(6,435,154,777)	(6,760,340,466)
Provision for income tax	19	-	-
Loss for the year		(6,435,154,777)	(6,760,340,466)
Other comprehensive income for the year			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain (loss) on retirement benefit obligation	17	126,431,265	(70,352,319)
Item that can be reclassified subsequently to profit or loss			
Net fair value changes on cash flow hedge reserves	10	80,417,970	(150,301,948)
Total comprehensive loss for the year		(6,228,305,542)	(6,980,994,733)

(The notes on pages 1 to 55 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Share capital (Note 11)	Deficit	Remeasurement gain (loss) on retirement benefit obligation (Note 17)	Net fair value changes on cash flow hedges (Note 10 and 18)	Total capital deficiency
Balances as of January 1, 2020	595,000,000	(18,802,568,942)	38,128,526	69,883,978	(18,099,556,438)
Comprehensive income for the year					
Loss for the year	-	(6,760,340,466)	-	-	(6,760,340,466)
Other comprehensive loss for the year	-	-	(70,352,319)	(150,301,948)	(220,654,267)
Total comprehensive loss for the year	-	(6,760,340,466)	(70,352,319)	(150,301,948)	(6,980,994,733)
Balances as of December 31, 2020	595,000,000	(25,562,909,408)	(32,223,793)	(80,417,970)	(25,080,551,171)
Comprehensive income for the year					
Loss for the year	-	(6,435,154,777)	-	-	(6,435,154,777)
Other comprehensive income for the year	-		126,431,265	80,417,970	206,849,235
Total comprehensive loss for the year	-	(6,435,154,777)	126,431,265	80,417,970	(6,228,305,542)
Balances as at December 31, 2021	595,000,000	(31,998,064,185)	94,207,472	-	(31,308,856,713)

(The notes on pages 1 to 55 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
Cash flows from operating activities			
Loss before income tax		(6,435,154,777)	(6,760,340,466)
Adjustments for:			
Amortization of right-of-use (ROU) assets	6	2,737,779,580	3,305,898,953
Depreciation expense	6	196,530,920	144,947,728
Impairment loss on ROU assets	15	-	963,100,000
Interest expense	15	546,934,074	561,167,909
Provision for (reversal of) impairment of receivables	3	53,738,898	(31,747,948)
Interest income	2,15	(108,233)	(497,151)
Unrealized foreign currency exchange loss (gain)	22	1,475,401,805	(807,375,132)
Fair value (gain) loss on derivatives	10	(26,942,974)	141,651,741
Loss on retirement of PPE	6	852,287	1,310,571
Operating loss before changes in assets and liabilities		(1,450,968,420)	(2,481,883,795)
(Increase) decrease in:			
Trade and other receivables		(5,752,147)	883,708,671
Expendable parts, materials and supplies		44,600,128	(25,442,074)
Prepayments and other current assets		204,665,367	274,780,617
Due from related parties		(1,432,844,047)	(365,545,738)
Increase (decrease) in:			
Trade payables and other current liabilities		3,036,677,630	4,976,513,655
Unearned revenue		(41,455,800)	(2,444,271,843)
Provision for aircraft redelivery costs		-	(5,787,423)
Retirement benefit obligation	17	28,821,423	73,663,314
Net cash from operations		383,744,134	885,735,384
Interest received		108,233	497,151
Net cash provided by operating activities		383,852,367	886,232,535
Cash flows from investing activities			
(Increase) decrease in deposits	7	(36,407,009)	92,853,176
Acquisitions of property and equipment	6	(6,631,777)	(55,700,124)
Net cash flow (used in) provided by investing activities		(43,038,786)	37,153,052
Cash flow from financing activity			
Payment of lease liabilities	16	(349,229,409)	(1,397,700,792)
Payments of loans payable	8	-	(81,119,166)
Interest paid	8	(36,036,083)	(33,542,375)
Net cash used in financing activities		(385,265,492)	(1,512,362,333)
Net decrease in cash		(44,451,911)	(588,976,746)
Cash at the beginning of the year		40,393,979	698,935,577
Effect of changes in foreign currency exchange rates		45,913,198	(69,564,852)
Cash at the end of the year	2	41,855,266	40,393,979

(The notes on pages 1 to 55 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Notes to the Financial Statements
As at and for the years ended December 31, 2021 and 2020
(All amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - Corporate information

1.1 General information

Philippines AirAsia Inc. doing business under the name and style of AirAsia (the Company or PAAI) was incorporated in the Philippines on March 25, 1997. The Company started commercial operations on January 1, 2003 and is presently engaged in the general business of airline, engaged in the transportation of passengers, merchandise, freight and mail.

On July 22, 2002, the Congress of the Philippines enacted Republic Act (R.A.) No. 9183 (the Act) granting the Company a franchise to establish, operate and maintain domestic and international air transport services. The franchise shall be for a period of 25 years.

In 2017, the Civil Aeronautics Board (CAB) granted the renewal of the Company's Certificate of Public Convenience and Necessity (CPCN) to operate scheduled air transportation services valid from July 28, 2017 until July 27, 2022, and from June 20, 2017 until June 19, 2022 for domestic and international services, respectively.

On December 19, 2017, AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia (AAI) entered a Deed of Absolute Sale of Shares to acquire 51.0% ownership interest in the Company from a major shareholder. The sale was executed after securing the approvals from the Congress and President of the Republic of the Philippines.

As at December 31, 2020 and 2019, the Company is 98.8% owned by AAI. AAI is a company incorporated and domiciled in the Philippines and is 60% owned by Filipino shareholders and 40% owned by Malaysian shareholders.

The Company's registered office address is Building No. 7233 Diosdado Macapagal International Airport, Civil Aviation Complex Clark Freeport Zone Angeles City, Pampanga, Philippines, while the principal place of business is located at Level 2, Mezzanine Area, Ninoy Aquino International Airport (NAIA) Terminal 3, Pasay City, Philippines.

1.2 Status of operations and impact of COVID-19

The Company continues to be affected by the adverse impact of COVID-19 pandemic, not only on the local travel industry, but on the international landscape as well. For the year ended December 31, 2021, the Company incurred loss of P6.44 billion (2020 - P6.76 billion) which resulted to increased deficit and capital deficiency amounting to P32 billion and P31.31 billion (2020 - P25.56 billion and P25.08 billion), respectively. In addition, the Company has a negative working capital (current assets less current liabilities) of P31.61 billion as at December 31, 2021 (2020 - P28.02 billion).

In 2020, significant decline in demand for air travel was brought by strict quarantine mandates and various border restrictions worldwide. As such, the Company has implemented changes in this operations and business strategies in order to maximize revenues and manage direct and operating costs.

During 2021, these efforts are on-going as the Company continues to seek support both from its vendors and business partners to enable to Company to meet its cash flow requirements. The Company's recovery plan aims to gradually restore pre-COVID capacities or frequencies, reduce operational costs, open new destinations and offer new products that is anchored on digital transformation.
The Company is currently undertaking the following measures to mitigate the effect of the disruption to its operations:

a. Commercial operations resumption

2021 started with slower demand recovery and flight resumption due to new strain of COVID 19 virus and varying domestic travel policies and RT-PCR requirements across the country.

In May 2021, the government began to ease travel restrictions in Manila and nearby provinces as COVID cases were in a downward trend. Eventually, leisure travels were allowed which boosted sales with the reopening of Boracay and Panglao destinations. However, in August 2021, the unanticipated emergence of the new COVID 19 variants resulted in the resurgence of the COVID cases, thereby, resulting to strict lockdown in Metro Manila and nearby provinces. In September 2021, travel demand slowly recovered as the Company transitioned to more relaxed quarantine guidelines and leisure travel was no longer prohibited which allowed the Company to increase frequency in most of the routes particularly on leisure routes. During the peak season, extra flights were added to the leisure and major routes. The trend continued in Q4 2021 due to the development in the vaccine rollout, decreasing trend of new COVID cases, continuous relaxation of travel restrictions and protocols, and government support on tourism.

Scheduled international flights were also introduced in December to serve the Overseas Filipino Worker (OFW) demand from Hong Kong and Singapore. Increased monthly average revenues beginning December 2021 are attributable to higher aircraft utilization and a load factor.

b. Generate revenue from charter flights and grow other revenue streams

To alleviate the impact of the pandemic on the financials, the Company focused on generating revenue from the charter flights. Revenues earned from charter flights significantly came from the high-margin China flights, repatriation flights from/to India and Sri Lanka, sweeper flights for locally stranded individuals supporting the government agencies and several repatriation flights to Myanmar, Malaysia, Vietnam and Indonesia.

Various programs were implemented to ensure revenue maximization of the baggage, seat selection, fees, food, insurance and other ancillary products and services which generated higher yield and take-up rate. Meanwhile, the main focus on cargo was to increase the number of accredited partners (agents) and maximize yield by offering new products and applying customized approach to different cargo demands.

c. Various cost containment measures to help preserve cash

Aggressive cost containment measures were initiated to sustain the business and is continuously monitored. While direct costs behave in proportion with respect to the number of flights, fixed costs remained to be on strict monitoring and scrutiny to further reduce at a level that is reasonable to operate its fleet. The following cost efficiency initiatives were deployed to manage fixed costs and stretch working capital support:

- Deferment of payments on rental, lease, airport charges and vendor payments;
- Renegotiation with vendors in view of rates and credit terms;
- Salary and employee benefit readjustments;
- Headcount rationalization;
- Freeze hiring, training, travel and overtime work; and
- Postponement of capital and training expenditure;

On January 1, 2021, the Company also offered voluntary separation program which resulted in the retrenchment of 357 employees in addition to the 267 employees that were retrenched in 2020. (Note 17). Further, as the Company continuously reevaluates the efficiency of its organizational structure and the right resource size to achieve further savings in human resource cost, the Company continues to downsize its manpower complement.

d. Working capital management

The Company, with the assistance of AirAsia Group Berhad (AAGB), managed to seek deferrals for payment and restructuring of several aircraft operating leases with lessors (Note 16). Payments are to be handled in gradual, progressive basis as the Company is moving towards full restoration of capacity through resumption of its operations.

e. Funding and financial support

Certain shareholders of AAI will continue to provide the necessary financial support to enable the Company to meet its financial obligations when they fall due and carry out its business operations. Further, certain shareholders continue to affirm that it will exercise restraint from calling on the net liabilities due from the Company at least for the next twelve (12) months from December 31, 2021; the forbearance will however change once the Company's financial position and cash flows has improved earlier than the lapse of the undertaking. Further, this certain shareholder continues to extend its guarantee to the Company for its outstanding loans with third party banks. This restraint will however change once the Company's financial position has improved (Notes 18 and 23).

In November 2021, the Company was able to renegotiate the maturity of its BDO loan to June 2022. Outstanding loan of the Company as at renegotiation date amounted to $19.09 million (approximately P955.86 million) (Note 8).

As it slowly recovers from the adverse impacts of COVID-19 into the air travel industry, the Company continues to fully adopt AirAsia's business model, including the Group's planned changes in strategies and as well as the introduction of new products and services of the brand. This is expected to drive loads through the lowest fare strategy, wider destination reaches and attracting more people to fly from and to the Philippines. Consequently, the Company continues to strengthen its local market share by penetrating further into key domestic trunks and leisure destinations, while also quickly tapping into the Southeast Asian market, China and North Asia. The effective implementation of the new business model is expected to bring favorable results to the Company's business operations in the long term.

Based on the foregoing, the Company's financial statements were prepared on a going concern basis.

1.3 Approval of the financial statements

These financial statements have been approved and authorized for issuance by the Company's Board of Directors (BOD) on May 2, 2022.

Note 2 - Cash

Cash as at December 31 consists of:

	2021	2020
Cash on hand	1,716,000	1,746,000
Cash in bank	40,139,266	38,647,979
	41,855,266	40,393,979

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks for the year ended December 31, 2021 amounted to P108,233 (2020 - P497,151) (Note 15).

Note 3 - Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

	Note	2021	2020
Trade receivables			
Third parties		1,322,129,410	1,305,401,055
Related parties	18	93,472,975	55,342,547
		1,415,602,385	1,360,743,602
Less: Allowance for impairment loss		1,293,307,245	1,239,568,347
Trade receivables, net		122,295,140	121,175,255
Other receivables		27,597,306	19,361,687
		149,892,446	140,536,942

Trade receivables are unsecured and non-interest bearing with credit terms ranging from 30 to 60 days.

Other receivables include advances to employees which are noninterest-bearing subject to liquidation upon completion of the business transaction.

Movements in allowance for impairment loss on trade receivables with third parties for the years ended December 31 are as follows:

	Notes	2021	2020
Beginning of the year		1,239,568,347	1,279,163,215
Provision for impairment loss	14	53,738,898	-
Reversal of impairment loss	14	-	(31,747,948)
Write-off of receivables		-	(7,846,920)
End of the year		1,293,307,245	1,239,568,347

Reversal of impairment loss for the years ended December 31, 2020 pertains to receivable balance previously provided with allowance that were subsequently collected.

Significant estimation of allowance for impairment loss on trade receivables

The Company uses a provision matrix to calculate expected credit loss (ECL) for trade receivables that are not credit impaired. The provision rates are based on days past due for groupings of various customer types that have similar loss patterns. The provision matrix is initially based on the Company's historically observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (e.g., PHP/USD average foreign exchange rate) is expected to increase over the next year which can lead to an increased number of defaults due to the decrease in PHP's purchasing power, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasted economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Note 4 - Expendable parts, materials and supplies

Expendable parts, materials, and supplies as at December 31 consist of:

	2021	2020
At cost		
Expendable parts	322,267,102	343,466,736
Inflight inventories	5,236,227	28,636,721
	327,503,329	372,103,457

For the year ended December 31, 2021, the cost of inventories charged to profit or loss as part of repairs and maintenance expense amounted to P56.6 million (2020 - P78.6 million) (Note 13).

Significant judgment on the determination of net realizable value of expendable parts, materials and supplies

The Company's estimates of the net realizable value of expendable parts, materials and supplies are based on the most reliable evidence (e.g., damage, physical deterioration, technological obsolescence, changes in commodity prices), available at the time the estimates are made of the amount that these assets are expected to be realized.

The net realizable value of expendable parts, materials and supplies is reviewed on a monthly basis to reflect the reasonable valuation of these assets. Expendable parts, materials and supplies identified to be obsolete and unusable is written-off and charged as expense for the period. The carrying value of the expendable parts, materials and supplies at reporting date and the amount and timing of recorded expenses for any period could differ based on the actual experience and changes in judgments or estimates made.

Management has assessed that the net realizable value of inventories is higher than their cost, hence the Company did not recognize any provision for inventory obsolescence for the years ended December 31, 2021 and 2020.

Note 5 - Prepayments and other current assets

Prepayments and other current assets as at December 31 consist of:

	2021	2020
Prepaid maintenance and fuel	251,316,677	408,519,388
Prepaid taxes	78,323,221	96,727,004
Prepaid insurance	1,657,905	-
Input value-added tax (VAT)	-	30,716,778
Others	5,022,164	5,022,164
	336,319,967	540,985,334

Prepaid maintenance and fuel and prepaid insurance will be recognized as expense either with the passage of time or through use or consumption.

Prepaid taxes mainly include overpayments of income taxes and creditable withholding taxes withheld by third parties arising from sale of services which are applied against future income tax payable.

Others include advanced payment for reservation fee for office spaces within Ninoy Aquino International Airport (NAIA) Terminal 3, reservation fees for hotel accommodations, advanced payments for 12-month rent and regulatory fees.

Note 6 - Property and equipment, net

Details of property and equipment, net are as follows:

	Leasehold improvements	Motor vehicles	Office furniture and equipment	Aircraft support machinery and equipment	Right-of-use assets (Note 16)	Total
At January 1, 2020						
Cost	108,669,918	87,684,726	99,543,590	819,624,806	17,717,171,866	18,832,694,906
Accumulated depreciation	(16,139,963)	(48,524,414)	(51,668,371)	(283,345,346)	(4,285,299,596)	(4,684,977,690)
Net carrying value	92,529,955	39,160,312	47,875,219	536,279,460	13,431,872,270	14,147,717,216
For the year ended December 31, 2020						
Opening net carrying value	92,529,955	39,160,312	47,875,219	536,279,460	13,431,872,270	14,147,717,216
Additions	1,806,853		8,884,744	49,239,961	727,377,681	787,309,239
Depreciation	(24,612,766)	(16,735,436)	(14,932,355)	(88,667,171)	(3,305,898,953)	(3,450,846,681)
Retirement/disposal						
Cost	(946,495)	-	(118,851)	(245,225)	(338,433,692)	(339,744,263)
Accumulated depreciation	-	-	-	-	338,433,692	338,433,692
Impairment	-	-	-	-	(963,100,000)	(963,100,000)
Closing net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
At December 31, 2020						
Cost	109,530,276	87,684,726	108,309,483	868,619,542	18,106,115,855	19,280,259,882
Accumulated depreciation and impairment	(40,752,729)	(65,259,850)	(66,600,726)	(372,012,517)	(8,215,864,857)	(8,760,490,679)
Net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
For the year ended December 31, 2021						
Opening net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
Additions	348,214	-	340,357	3,202,086	584,819,943	588,710,600
Depreciation	(25,745,973)	(12,527,176)	(17,300,793)	(140,956,978)	(2,737,779,580)	(2,934,310,500)
Retirement/disposal						
Cost	-	(22,515,137)	-	(1,860,943)	(136,204,127)	(160,580,207)
Accumulated depreciation	-	21,373,116	-	1,593,455	112,854,847	135,821,418
Closing net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
At December 31, 2021						
Cost	109,878,490	65,169,589	108,649,840	869,960,685	18,554,731,671	19,708,390,275
Accumulated depreciation and impairment	(66,498,702)	(56,413,910)	(83,901,519)	(511,376,040)	(10,840,789,590)	(11,558,979,761)
Net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514

Acquisitions of property and equipment as shown in the statements of cash flows for the year ended December 31 were determined as follows:

	Note	2021	2020
Beginning unpaid portion of property and equipment		124,003,565	119,772,131
Acquisitions of property and equipment		3,890,657	59,931,558
Unpaid portion of property and equipment	9	(121,262,445)	(124,003,565)
Paid acquisitions of property and equipment per statements of cash flows		6,631,777	55,700,124

Depreciation and amortization charged to profit or loss for the years ended December 31 are as follows:

	Notes	2021	2020
Cost of services	13	2,855,387,278	3,347,867,567
Operating expenses	14	78,923,222	102,979,114
		2,934,310,500	3,450,846,681

(6)

Right-of-use (ROU) assets as at December 31 consist of:

	Aircraft	Engine	Office	Total
At January 1, 2020				
Cost	17,515,141,190	65,826,549	136,204,127	17,717,171,866
Accumulated depreciation	(4,207,228,361)	(35,264,224)	(42,807,011)	(4,285,299,596)
Net carrying value	13,307,912,829	30,562,325	93,397,116	13,431,872,270
For the year ended December 31, 2020				
Opening net carrying value	13,307,912,829	30,562,325	93,397,116	13,431,872,270
Additions	727,377,681	-	-	727,377,681
Depreciation	(3,230,989,017)	(28,211,379)	(46,698,557)	(3,305,898,953)
Retirement/disposal				
Cost	(338,433,692)	-	-	(338,433,692)
Accumulated depreciation	338,433,692	-	-	338,433,692
Impairment	(963,100,000)	-	-	(963,100,000)
Closing net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
At December 31, 2020				
Cost	17,904,085,179	65,826,549	136,204,127	18,106,115,855
Accumulated depreciation	(8,062,883,686)	(63,475,603)	(89,505,568)	(8,215,864,857)
Net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
For the year ended December 31, 2021				
Opening net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
Additions	584,819,943	-	-	584,819,943
Depreciation	(2,712,079,355)	(2,350,946)	(23,349,279)	(2,737,779,580)
Retirement/disposal				
Cost	-	-	(136,204,127)	(136,204,127)
Accumulated depreciation	-	-	112,854,847	112,854,847
Impairment	-	-	-	-
Closing net carrying value	7,713,942,081	-	-	7,713,942,081
At December 31, 2021				
Cost	18,488,905,122	65,826,549	-	18,554,731,671
Accumulated depreciation and impairment	(10,774,963,041)	(65,826,549)	-	(10,840,789,590)
Net carrying value	7,713,942,081	-	-	7,713,942,081

Collateral equipment

A certain engine under aircraft support machinery and equipment was used as collateral to secure a loan renegotiation obtained by its parent company in 2020. The net carrying amount of such property as at December 31, 2021, included as part of the ROU assets amounted to P102,533,290 (2020 - P149,325,290).

Impairment of ROU assets

As discussed in Note 1, the Company is continuously impacted by the adverse effects of the COVID-19 pandemic, as such, management has regularly undertaken impairment assessment review.

In 2021 and 2020, management has undertaken an impairment review of the Company's cash generating units (CGUs), which primarily consist of Aircraft ROU assets. In accordance with PAS 36, Impairment of Assets. In determining the provision, the recoverable amount of the Company's ROU assets was determined based on value-in-use (VIU) calculations. Cash flow projections used in the value-in-use calculations were based on forecasted financials results approved by management covering a remaining lease term of the entire aircraft fleet. The financial results were also in consideration of the current COVID-19 recovery plans, progress on the roll-out of the vaccination program in the country, as well as lifting of the quarantine mandates that would allow air travel on targeted locations.

Using the detailed projections of Company's expected results from its current fleet for remaining lease term, and applying a terminal value thereafter, the Company calculated a recoverable amount as at December 31, 2021 amounting to P9.4 billion (2020 - P9.9 billion). Consequently, the Company did not recognize provision for impairment of its Aircraft ROU assets for the year ended December 31, 2021. In 2020, P963.1 million was recognized, which represented the difference between the recoverable amount and the carrying value of the Aircraft ROU assets as at reporting date.

The assumptions used as at December 31 are as follows:

	2021	2020
Discount rate	9%	8%
Terminal growth rate	0%	0%

Discount rate used is based on weighted average cost of capital of comparable companies.

Significant estimation on impairment of ROU assets

The Company assesses at each reporting date whether there is an indication that right-of-use assets may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. The recoverable amount of right-of-use assets is the greater of the asset's fair value less costs to sell and value-in-use. Determination of impairment of right-of-use assets requires an estimation of the value-in-use of the cash-generating unit (CGU) to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Company uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield, aircraft utilization and fuel costs, among others.

Changes in these judgments and assessments could have a significant effect on the carrying value of right of use assets and the amount and timing of recorded provision for any period.

The Company recognized provision for right of use assets as presented above. The Company further believes that there are no other events or changes in circumstances that indicate the carrying amount of its remaining right of use assets may not be recoverable at reporting date.

The Company has determined that right-of-use assets are recoverable based on value in use.

For the year ended December 31, 2021, while the resulting value-in-use exceeds the carrying value of the ROU assets, there are no reversal of impairment charges recognized primarily because the changes in the values were determined by management to be attributable to sensitivity of assumptions and impairment indicators continue to exist.

While it is believed that the Company's assumptions are reasonable and appropriate, significant changes in assumptions may materially affect the Company's impairment provision and right of use asset. The sensitivity of the resulting impairment provision is mainly driven by any changes in pre-tax discount rate applied, while holding all assumptions constant.

If the pre-tax discount rate applied in the cash flow projections of this CGU had been +1% (-1%) than management's estimates, the Company would have recognized decrease in value in use of P381 million (increase in value in use of P406 million) for the year ended December 31, 2021.

When calculating the sensitivity of the impairment provision, the same method (value-in-use) has been applied as when calculating the impairment provision recognized in profit or loss.

Significant judgment on recoverability of property and equipment and ROU assets

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

As of December 31, 2021 and 2020, management believes that the carrying amount of the Company's property and equipment and ROU assets are recoverable.

Note 7 - Deposits

Deposits as at December 31 consist of:

	Note	2021	2020
Aircraft and engine lease deposit	16	653,375,961	614,910,558
Refundable deposits		88,781,983	95,182,741
Spares and maintenance deposit		24,986,595	20,044,231
Hangar and office rental	16	18,454,657	18,454,657
Others		-	600,000
		785,599,196	749,192,187

Refundable deposits pertain to bonds paid to different Philippine airport authorities for each of the aircraft landing and take-off costs. These amounts will be refunded at the end of the related contracts.

Spares and maintenance deposit mainly relate to deposits for future fixed asset acquisitions.

Note 8 - Loans payable

On September 8, 2017, the Company availed of a loan from BDO Unibank, Inc. (BDO) to be used for working capital requirements amounting to $35.0 million (P1.78 billion). Fifty percent (50%) of the loan is payable in 11 equal quarterly installments starting December 2017 and the remaining fifty percent (50%) is payable in lump sum at the end of the contract term on September 8, 2020. The loan is subject to 3-month London Interbank Offered Rate (LIBOR) plus margin of 2.5%.

The loan with BDO provides for restrictions with respect to, among others, making distribution on its share capital; maintenance of financial ratios; making any material change in the character of its business or engaging in any business operation or activity other than those for which it is presently authorized; decreasing the current ownership interest of AAI; incurring any secured indebtedness; and, extending loans, advances to any corporation, directors, officers and stockholders other than advances in the ordinary course of business.

This BDO credit facility is secured by corporate guarantee of AAGB, a shareholder of AAI, and the continuing suretyship of AAI (Note 18).

In 2018, the Company did not meet the required financial ratios. Thus, the portion of loans originally payable in 2020 totaling $20.68 million (P1.09 billion) was presented as current liabilities since BDO has the right to call the loans as at December 31, 2018, and anytime thereafter. The Company was not declared in default by BDO. In 2019, the whole amount of loans payable, being originally due in September 2020, are classified as current.

In 2020, the Company was able to renegotiate the outstanding loan amounting extending the maturity date to November 19, 2021. The renegotiated loan is subject to 3-month LIBOR plus margin of 4% per annum. The renegotiated loan is short-term and is not subject to any loan covenant.

In November 2021, the Company was able to further renegotiate the maturity of its BDO loan to June 2022. Outstanding loan of the Company as at renegotiation date amounted to $19.1 million (approximately P957.75 million) (Note 8). Movements of loans payable as at December 31 are as follows:

	2021	2020
Balance at the beginning of year	916,994,530	1,049,790,527
Settlements	-	(81,119,166)
Foreign exchange effects	57,235,237	(51,676,831)
Balance at the end of year	974,229,767	916,994,530

Movements in accrued interest on loans payable at December 31 are as follows:

	2021	2020
Balance at the beginning of year	780,581	4,259,871
Settlements	(36,036,083)	(33,542,375)
Interest expense	37,152,555	34,322,956
Foreign exchange effects	(780,581)	(4,259,871)
Balance at the end of year	1,116,472	780,581

Accrued interest on loans payable as at December 31, 2021 and 2020 is presented as part of trade payables and other current liabilities (Note 9).

Note 9 - Trade payables and other current liabilities; provisions

Trade and other current liabilities

Trade payables and other current liabilities at December 31 consist of:

	Notes	2021	2020
Trade payables			
Related parties	18	5,973,681,088	5,660,443,360
Third parties		5,661,051,404	3,309,958,535
		11,634,732,492	8,970,401,895
Accrued expenses			
Repairs and maintenance		790,822,056	799,407,460
Salaries and employee benefits		147,548,115	213,682,308
Landing, takeoff and parking		180,898,715	127,812,561
Accrued interest on lease deferrals	16	37,563,189	20,706,775
Airport ground handling		12,172,366	22,120,251
Accrued interest on loans payable	8	1,116,472	780,581
Others		24,416,221	14,561,181
		1,194,537,134	1,199,071,117
Refunds		773,403,535	839,847,415
Deposits from travel agents		228,045,825	405,854,297
Payable to government agencies		300,059,685	140,859,376
Output VAT payable		39,215,051	-
Unpaid capital expenditures		121,262,445	124,003,565
Other claims		11,656,230	954,650
Trade and other current liabilities		14,302,912,397	11,680,992,315
Provision for claims		330,106,424	330,106,424

(10)

Trade payables are unsecured, unguaranteed and non-interest bearing. Payable to third parties have credit terms ranging from 30 to 60 days while payable to related parties are due and demandable.

Deposits from travel agents pertains to cash bond of travel agents. This serves as the travel agents' credit limit and represents the maximum value of tickets that the travel agents are allowed to sell.

Payable to government agencies pertains mostly to output VAT and withholding taxes on payroll which are noninterest-bearing and are normally settled the following month.

Refunds mainly consist of scheduled flights that were eventually cancelled by the Company, following some circumstances outside the control of the passenger. Passengers affected by eventual cancellations are provided an option to rebook or refund flight booking payments. Refunds account are those cancelled flights where passengers opted to refund cash via their choice of payment platform. Rebooked flights are recorded as part of "Unearned Revenues" in the statement of financial position (Note 23.16).

Provisions

In the normal course of business, the Company has provisions, including those that may arise from suits and claims that are presently being contested. The Company has several pending cases which are individually not material that are likely to continue for some time. In the opinion of management, the ultimate disposition of these amounts will not have any significant effect on the financial position, results of operations and cash flows of the Company as at and for the years ended December 31, 2021 and 2020.

There are no amounts of provisions charged to profit or loss for the year ended December 31, 2021.

Significant estimate in determination of provisions

In the normal course of business, the Company is involved in various legal actions, claims and other contingencies incidental to its ordinary course of business. Provision is based on management's assessment and judgment, in consultation with counsels and advisors, of the likelihood that the settlement of these provisions will be realized considering possible outcomes under various circumstances. While it is believed that the Company's judgment and assessment are reasonable, actual results could differ from those judgment and assessment.

Accordingly, the recorded provision at the end of each reporting period and the amount and timing of recorded expense for any period could be materially affected by actual experience and changes in those judgment and assessment. A change in the estimated amount to be paid in settlement of these provisions would impact the Company's recorded expenses and current liabilities.

Note 10 - Derivative financial instruments

The table below sets out the fair value derivative financial instruments as at December 31:

	2021	2020
Designated hedges		
Current liabilities	-	(80,417,970)
Not designated hedges		
Current liabilities	-	(26,942,974)
Total derivative financial liabilities	-	(107,360,944)

In 2020 and 2019, AAGB entered into derivative contracts with third parties to hedge the jet fuel requirements of the AirAsia network. Subsequently in the same years, AAGB entered fuel derivative contracts with the Company for its related expected fuel consumption (Note 18). The Company's fuel derivatives consist primarily of fixed commodity swaps and options which are based on Brent crude oil price and crack between Brent oil price and jet fuel prices.

The Company designated for hedge accounting the derivative contracts entered for the years ended December 31, 2021 and 2020.

The net changes in the fair value of all derivative instruments are as follows:

		2021	2020
Balances at beginning of year		(107,360,944)	184,592,744
Net changes in fair value during the year		67,922,422	(2,045,641,856)
Fair value of settled derivatives	18	39,438,522	1,753,688,168
Balances at end of year		-	(107,360,944)

Accumulated reserve on change in fair value of the outstanding derivatives designated for hedge accounting amounting as at December 31, 2020 amounted to P80.42 million (2021 - nil) is recognized as cash flow hedge reserve under other comprehensive income. For the year ended December 31, 2021 and 2020, no ineffectiveness was recognized in the statement of total comprehensive income.

A net gain of P26.94 million in 2021 (2020 - P141.65 million net loss) resulting from the movement in fair value of derivative instruments not designated for hedge accounting is recognized as fair value change in derivatives in the statement of comprehensive income.

In 2021, following the maturity of the hedge contract in April 2021, fair value loss on settled fuel derivative contracts amounting to P39.44 million charged to profit or loss is recognized as part of fuel costs (2020 - P1.75 billion loss) (Note 13).

In 2020, the Company, through AAGB, restructured Brent swaps originally maturing in April to June 2020. Upon renegotiation, the instruments have various maturity dates from December 2020 to April 2021 (Note 22). Upon maturity date in April 2021, the Company has not further participated in the Group's renegotiated hedges.

Following are the details of the restructured swaps:

	Original	Restructured
Notional quantity	35,107 barrels	37,448 barrels
Notional amount	$2,071,310	$2,412,260
Average hedged rate	$59.00	$64.42

As at December 31, 2021 and 2020, the fair value of the Company's fuel derivative contracts is determined using forward fuel price at balance sheet date, with the resulting value discounted to present value (Note 22).

Significant estimation of fair value of derivative instruments

The Company's derivative assets and liabilities are carried at fair value, the determination of which requires the use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., forward fuel prices and discount rates), the amount of changes in fair value would differ due to usage of different valuation methodology. Any change in fair value of these derivative instruments would affect directly the statements of comprehensive income.

Note 11 - Equity

The Company's share capital as at December 31, 2021 and 2020 consists of:

	Shares	Amount
Common shares at P1 par value per share		
Authorized	576,078,431	576,078,431
Issued and outstanding	171,078,431	171,078,431
Preferred shares at P1 par value per share		
Authorized, issued and outstanding	423,921,569	423,921,569

The Company's preferred shares are non-voting, participating, convertible at the option of the holder and redeemable at the option of the Company at the issue price or book value thereof, whichever is higher. Dividends are cumulative from the date of subscription thereof and is intended to be payable upon formal declaration by the BOD, and at which time, the related obligation on dividend is recognized in the accounts. As at December 31, 2021 and 2020, the BOD has yet to determine and approve the cumulative preferred dividend rate.

Under CAB Resolution No. 32, international scheduled air transport service provider is required to maintain a capital of not less than P800 million for the renewal of its CPCN. Existing grantees of CPCN are required to comply with the requirement within a period of one (1) year from the effectivity of the resolution in 2018 or upon renewal of its CPCN, whichever comes first. As at December 31, 2021 and 2020, total capital stock of the Company amounted to P595 million.

On September 13, 2019, CAB granted the Company's proposed changes in its authorized and outstanding capital stock, endorsement of the proposed transactions to the SEC and the subsequent confirmation of compliance with CAB Resolution No. 32 upon approval by the SEC of the proposed transactions.

On November 19, 2019, the Company's BOD and shareholders approved the conversion of the Company's outstanding liabilities to AAI amounting to P11.97 billion as full consideration for the issuance by the Company of 205 million common shares. This transaction would result to increase AAI's ownership in the Company to 800 million common shares at P1.00 par value per share and would enable the Company to conform to the capitalization requirement of CAB.

On January 31, 2020, the BOD and shareholders of Asiawide Airways Inc. (AWAI) approved the assignment of the Company's payable balance amounting to P753 million to AAI as the new creditor. In consideration for such assignment, AAI extinguished the debt of AWAI to AAI for the same amount.

On June 18, 2020, the Company filed its application to the SEC for the debt to equity restructuring.

On April 21, 2021, the BOD and shareholders of AWAI and AAI approved the revocation of the following:

(i) the assignment by AWAI of its net receivable from PAA amounting to P753 million (AWAI Assigned Receivable) to AAI;
(ii) the extinguishment of the AWAI's Debt to AAI to the extent of an amount equivalent to the AWAI Assigned Receivables; and
(iii) the assignment of the AAI Additional Receivables Assignment to be applied towards the subscription payment for the Corporation's subscriptions to shares of PAA out of the PAA Capital Increase.

It was further approved by the AAI's BOD and shareholders that the subscription price for the 205,000,000 shares will be amended from P11.97 billion to P11.22 billion.

As at reporting date, the Company has yet to update its filings with the Philippine SEC to reflect this change. Meanwhile, the initial application is still pending review and approval by the SEC.

Note 12 - Other revenues

Other revenues for the years ended December 31 are as follows:

	2021	2020
Baggage fees	177,982,800	564,235,679
Inflight meals and services	14,139,524	45,790,833
Assigned fees	9,537,816	45,395,284
Rebooking, refunds and cancellation fees	1,174,928	127,162,688
Connection fees	83,515	16,148,183
Others	26,569,757	14,624,455
	229,488,340	813,357,122

Others pertain mainly to unlimited flight pass, expired credit shell, rental income on lease of a portion of the warehouse and other add-on fees, including insurance, airport service charges and handling fees.

Note 13 - Cost of services

Cost of services for the years ended December 31 are as follows:

	Notes	2021	2020
Depreciation and amortization	6, 16	2,855,387,278	3,347,867,567
Repairs and maintenance	4	833,059,452	1,939,123,505
Fuel cost	10	863,171,114	3,827,873,762
Salaries and employee benefits		692,757,037	1,376,482,999
Aircraft rental	16	371,428,318	-
Landing, take-off and parking		145,441,983	474,886,153
Airport ground handling		80,309,914	282,867,827
Bus rental	16	27,349,948	49,894,375
Custom duties		1,063,146	16,551,591
Others		132,526,805	256,266,545
		6,002,494,995	11,571,814,324

Landing, take-off and parking consists of amounts paid to airport authorities for landing and taking off at each particular airport. It also includes fees for parking at the terminal apron and other designated parking spaces.

Airport ground handling represents charges for services such as ground coordination, customs clearance application, passenger baggage handling, refueling, shuttle and other ground services.

Others consist mainly of aviation insurance, navigational fees charged for the establishment, operation and maintenance of air navigation system and facilities, and catering charges for in-flight crews.

Note 14 - Operating expenses

Operating expenses for the years ended December 31 are as follows:

	Notes	2021	2020
Marketing expenses			
Commission expenses		23,111,263	94,761,566
Promotion and advertising		20,385,605	110,543,233
		43,496,868	205,304,799
General and administrative expenses			
Utilities		237,385,178	209,591,594
Outside services	18	200,333,123	156,147,573
Salaries and employee benefits		160,304,072	220,481,772
Depreciation and amortization	6	78,923,222	102,979,114
Repairs and maintenance		73,247,154	149,747,081
Provision for (reversal of) impairment of receivables	3	53,738,898	(31,747,948)
Office rental	16	37,809,281	20,827,602
Retirement benefit expense	17	17,240,299	68,130,428
Brand license fee	18, 20	6,546,397	113,011,513
Training and accommodation		5,839,294	18,666,959
Taxes and licenses		5,167,791	11,678,509
Bank charges		1,609,542	3,710,744
Others		32,869,917	132,691,197
		911,014,168	1,175,916,138
		954,511,036	1,381,220,937

Note 15 – Finance costs and other expense (income), net

Finance costs for the years ended December 31 are as follows:

	Notes	2021	2020
Interest expenses on:			
Lease liability	16	463,763,955	500,466,766
Lease deferrals	16	37,563,189	20,706,775
Loan payable	8	37,152,555	34,322,956
Retirement benefit obligation	17	13,869,824	14,352,886
Provision for aircraft redelivery	16	8,454,375	5,671,412
Others		53,765,993	11,117,415
		614,569,891	586,638,210

Others include late payment fees charged by certain airport authorities.

Other (income) expenses, net for the years ended December 31 consists of:

	Notes	2021	2020
Foreign exchange loss (gain), net	22	1,456,771,240	(1,154,609,397)
Reversal of accruals		(286,070,472)	(214,808,890)
Gain on MRF claims		(127,753,031)	-
Interest income from bank deposits	2	(108,233)	(497,151)
Provision for impairment of right-of-use assets	6	-	963,100,000
Others		(44,289,713)	(147,246,846)
		998,549,791	(554,062,284)

(15)

Gain on maintenance reserve fund (MRF) claims pertain to a cash reimbursements received from engine lessors related to the maintenance costs of engines incurred and paid by the Company in 2019. Final reconciliation and settlement was made by the lessor in October 2021.

In 2021 and 2020, management continuously reviewed the composition of its outstanding accruals and wrote off certain long outstanding balances which management assessed as no longer representing valid claims against the Company.

Others include collection from scrap sales, sublease of airport terminal space and reversal of deposits from inactive agents.

Note 16 - Leases (the Company as the lessee)

The Company's fleet as at December 31 consists of:

	Note	2021	2020
Airbus A320-200			
Third party lessors		17	17
Related party lessor	18	7	7
		24	24

Passenger aircraft

The Company is a lessee to various non-cancellable leases covering its passenger aircrafts, from both third party and related party principal lessors. The leases have terms ranging from twelve (12) months to ten (10) years with renewal options. The Company's existing fleet are with lease terms as provided below:

	Original lease term (including renewal options)		Restructured in 2021	New lease term (after lease restructuring)	
No. of aircrafts	From	To		From	To
2	2013	2022	No	2013	2022
1	2013	2023	Yes	2021	2029
1	2014	2021	No	2014	2021
1	2014	2025	No	2014	2025
1	2014	2026	No	2014	2026
2	2016	2022	No	2016	2022
1	2016	2023	No	2016	2023
1	2017	2021	No	2017	2021
1	2017	2022	No	2017	2022
1	2017	2023	No	2017	2023
1	2017	2025	Yes	2021	2031
1	2017	2025	No	2017	2025
2	2018	2025	Yes	2021	2031
2	2018	2025	No	2018	2025
1	2018	2026	Yes	2021	2031
1	2018	2026	No	2018	2026
1	2018	2030	No	2018	2030
1	2019	2022	Yes	2021	2027
1	2019	2025	No	2019	2025
1	2019	2028	No	2019	2028
24					

Lease terms are negotiated either on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Lease restructuring and modification

On various dates in 2021, through and with the assistance of AirAsia Group Berhad (AAGB), managed to seek deferrals for payment and restructuring of several aircraft operating leases with lessors. In 2021, 6 aircraft leases were restructured and among the provisions of the new lease terms includes reduced rental rates and extended lease terms. The table presented in the foregoing provides information on the new lease terms following the restructuring.

Lease payment deferrals

On November 19, 2020, the Company's BOD resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes, deferral of rental payments due in various dates in 2020 and 2021 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in December 2020.

For the aircrafts that were granted lease payment deferrals, the provisions in the lease side letter undertaking did not constitute a lease concession and hence, no corresponding gain or loss was recognized in profit of loss. The rental payments not stated in the lease side letter will continue to due for payment in accordance with the original terms of the lease agreement.

Total amount of rent payments due that was deferred as of December 31, 2021 amounted to P1,400,839,060 (2020 - P1,904,252,573). Accrued interest recognized in relation to the due rental payments as at December 31, 2021 amounted to P37,563,189 (2020 - P20,706,775) (Note 9).

Movements of the Company's lease liabilities as at and for the years ended December 31 are as follows:

	Note	2021	2020
Balance at beginning of year		12,316,353,273	13,123,519,042
Modifications		1,699,176,651	-
Additions		-	602,640,365
Pre-termination of office lease		(23,906,502)	-
Lease payments		(349,229,409)	(1,397,700,792)
Interest accretion	15	463,763,955	500,466,766
Foreign exchange difference		506,872,532	(512,572,108)
		14,613,030,500	12,316,353,273

Classification of lease liabilities in the statements of financial position as at December 31 are as follows:

	2021	2020
Current	6,432,937,373	4,531,976,112
Non-current	8,180,093,127	7,784,377,161
	14,613,030,500	12,316,353,273

The amount of right-of-use assets recognized in statement of financial position as at December 31, 2021 amounted to P7.71 billion (2020 - P9.89 billion) (Note 6).

The following are the amounts recognized in statement of total comprehensive income for the years ended December 31:

	Notes	2021	2020
Amortization of right-of-use asset	6	2,737,779,580	3,305,898,953
Impairment of right-of-use asset	6	-	963,100,000
Interest accretion on lease liability	15	463,763,955	500,466,766
Expenses related to short-term leases and low-value assets	13,14	436,587,547	70,721,977
Foreign exchange difference		506,872,532	(512,572,108)
		4,145,003,614	4,327,615,588

Short term aircraft and engine leases

In 2021, certain aircraft leases and the engine lease expired, pending renewal of its lease agreement. The lease rentals for the periods not covered by the lease term in the renewed and executed contract amounted to P371,428,318 were charged to profit or loss as part of the cost of services.

Hangar and office space

The Company also has existing non-cancellable agreements for its hangar and office space for a period of three (3) years until December 31, 2021. In June 2021, the Company pre-terminated its lease agreement for the office space in Terminal 3 which resulted to a gain of P557,222. Subsequent monthly rentals amounting to P37,809,281 not covered the renewed lease agreement was classified as short term lease and charged to profit or loss as part of operating expenses. The Company is in the process of renegotiating the lease agreements with its lessors as it intends to renew the term for another 3 years

Expenses related to short-term leases pertain to its other office rentals and airport ground handling. Leases related to low-value assets pertain to small office equipment.

Rental expenses charged to profit or loss on other leases for the years ended December 31 are as follows:

	Notes	2021	2020
Cost of services	13		
Short term aircraft and engine lease		371,428,318	-
Bus rental		27,349,948	49,894,375
Operating expenses	14		
Office rental		37,809,281	20,827,602
		436,587,547	70,721,977

The total cash outflow for leases for the year ended December 31, 2021 amounted to P785,816,956 (2020 - P1,468,422,769).

Future minimum lease payments under lease liabilities and the present value of the minimum lease payments as at December 31 are as follows:

	2021	2020
Not later than 1 year	6,997,763,884	4,936,755,260
Later than 1 year but not later than 5 years	6,678,156,935	7,144,401,327
Later than 5 years	3,430,993,027	1,505,296,614
	17,106,913,846	13,586,453,201
Future finance charges	(2,493,883,346)	(1,270,099,928)
	14,613,030,500	12,316,353,273

The present value of lease liabilities at December 31 is as follows:

	2021	2020
Within one year	6,432,937,374	4,531,976,112
After one (1) year but not more than five (5) years	5,237,320,079	6,411,425,843
More than five years	2,942,773,047	1,372,951,318
	14,613,030,500	12,316,353,273

Significant estimation of provision for aircraft redelivery costs

The Company is contractually required under its lease contracts to restore its leased aircraft based on a pre-agreed return condition at its own cost at the end of the lease term. These costs are accrued based on estimates made by the Company's engineers and historical cost incurred, which include estimates of future redelivery costs, overhaul and restoration costs. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, the actual redelivery costs will ultimately depend on the aircraft's utilization and market condition at the time of redelivery.

The rollforward analysis of the Company's provision for aircraft redelivery costs for the years ended December 31 are as follows:

	Note	2021	2020
Balance at beginning of year		133,519,022	134,973,261
Effects of change in estimates		8,585,982	(5,787,423)
Accretion charged to profit or loss	15	8,454,375	5,671,412
Foreign exchange difference		(114,742)	(1,338,228)
		150,444,637	133,519,022

Provision for aircraft redelivery is classified in the statement of financial position as at December 31 are as follows:

	2021	2020
Current	41,245,789	23,371,684
Non-current	109,198,848	110,147,338
	150,444,637	133,519,022

Refundable deposits

Deposits related to the foregoing leases as at December 31 are as follows:

	Note	2021	2020
Aircraft leases	7	653,375,961	614,910,558
Hangar and office space	7	18,454,657	18,454,657
		671,830,618	633,365,215

Significant estimation of incremental borrowing rate - leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for entities that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the entity's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's credit rating).

At the date of initial application, the Company used IBR ranging from 4.94% to 5.10% to measure lease liabilities. In 2021, for certain aircrafts that were restructured, the Company used IBR ranging from 7.84% to 9.29% to measure the restructured lease liabilities.

Note 17 - Retirement benefit obligation

The Company has an unfunded defined benefit pension plan covering all of its employees based on years of service and compensation on the last year of employment.

The Company's retirement plan provides for the following benefits based on the final monthly salary for every year of service:

		Minimum requirement (in years)	
Retirement plan	Rate of final monthly salary	Age	Service period
Normal	120%	60	5
Early	100%	50	10
Late	125%	60	Case to case basis

This retirement plan meets the minimum retirement benefit requirements as specified under R.A. No. 7641, *The Retirement Pay Law.*

Under the existing regulatory framework, R.A. No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of the retirement benefit expense charged to profit or loss for the years ended December 31 are as follows:

	Notes	2021	2020
Operating expenses			
Current service cost	14	88,326,257	91,250,540
Curtailment gain	14	(71,085,958)	(23,120,112)
Interest expense			
Interest cost	15	13,869,824	14,352,886
		31,110,123	82,483,314

Curtailment and retrenchment program

Curtailments relate to reduction in number of employees covered by the retirement plan as a result of the separation program undertaken by the Company. On May 6, 2020, the Company's BOD approved the implementation of cost-saving measures reasonably necessary to the business in light of COVID-19 outbreak. This resulted in reduction of its operations including termination of the services of 267 identified employees of the Company effective July 1, 2020.

As a result of the retrenchment of 267 staff effective July 1, 2020, the Company incurred separation costs amounting to P31.69 million which was paid during the current year. These separations costs are presented as part of salaries and employee benefits within cost of services and operating expenses in profit of loss.

Further, on January 1, 2021, the Company also offered voluntary separation program which resulted in the retrenchment of 357 employees. The separation costs amounting to P55.01 million paid during the current year were charged to profit or loss as part of salaries and employee benefits within cost of services and operating expenses.

For the year ended December 31, 2021, the Company recognized curtailment gain amounting to P71.08 million (2020 - P23.12 million) which represents benefits earned under the existing programs and other one-time termination benefits.

The movements in the present value of defined benefit obligation for the year ended December 31 are as follows:

	Notes	2021	2020
Balance at beginning of year		438,012,516	293,996,883
Current service cost	14	88,326,257	91,250,540
Curtailment gain	14	(71,085,958)	(23,120,112)
Interest cost	15	13,869,824	14,352,886
Benefits paid		(2,288,700)	(8,820,000)
Remeasurement (gain) loss			
Changes in financial assumptions		(81,910,122)	89,502,682
Experience adjustments		(44,521,143)	(19,150,363)
Balances at end of year		340,402,674	438,012,516

The movement in the reserve for remeasurements on retirement benefit obligation for the years ended December 31 is as follows:

	2021	2020
Balances at beginning of year	(32,223,793)	38,128,526
Remeasurement gain (loss)	126,431,265	(70,352,319)
	94,207,472	(32,223,793)

The principal actuarial assumptions used for the year ended December 31 are as follows:

	2021	2020
Discount rate	4.99%	3.78%
Salary increase rate per annum	5.00%	5.00%

- Discount rate - This is determined by reference to market yields at the end of the reporting period based on PHP BVAL reference rates as at December 31, 2021 and 2020.

- Future salary increases - This is the expected long-term average rate of salary increase taking into account of inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period when the benefits are expected to be paid.

Shown below are the maturity analyses of undiscounted benefit payments as at December 31:

	2021	2020
Less than 1 year	19,742,064	28,553,083
More than 1 year and up to 5 years	83,979,624	74,300,398
More than 5 years and up to 10 years	154,250,116	134,126,187
More than 10 years and up to 15 years	276,267,081	354,355,391
More than 15 years and up to 20 years	782,557,568	906,363,107
More than 20 years	6,564,271,314	8,999,013,816

The average remaining employee service lives is 22 years as at December 31, 2021 and 2020.

Significant estimation of retirement benefits

The determination of the Company's retirement benefit obligation and retirement benefits are dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates and future rates of salary increase at the end of each year. Discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Company considers the interest rates on Philippine government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligation. Actual results that differ from the Company's assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement benefit expense and obligation.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
December 31, 2021			
Discount rate	+/-1%	(51,520,415)	65,928,734
Future salary increase rate	+/-1%	63,505,171	(50,814,760)
December 31, 2020			
Discount rate	+/-1%	(74,214,289)	95,125,362
Future salary increase rate	+/-1%	90,542,354	(72,460,213)

The foregoing 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 periods) has been applied as when calculating the retirement benefit obligation recognized within the statement of financial position.

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

Note 18 - Related party transactions and balances

The Company the following transactions and balances with its related parties as at and for the years ended December 31:

	Transactions		
	2021	2020	Terms and conditions
(a) Aircraft lease agreements *Entities under common shareholder*	2,366,256,082	1,093,539,797	The Company entered into various lease agreements with Merah Putih 2, Inc. (MP2) and Red Lotus Aviation Limited, entities under common shareholder, for the lease of the Company's passenger aircraft. In 2018, MP2 started assigning its rights on its lease agreements with the Company to a third-party lessor (Note 16). Aircraft leases are accounted for under PFRS 16 and are recognized as right-of use assets (and are being amortized) and lease liabilities (Note 16).
(b) Collections made by (on behalf of) related parties *Entities under common shareholder*	16,332,134	11,570,325	These are proceeds from passenger ticket sales collected by related parties on behalf of the Company or vice versa. Collections made by related parties are initially recognized as contract liability by the Company. On a monthly basis, amounts are reconciled. Ticket sales pertaining to the Company are recognized as revenue once lifted and a related receivable from related parties is recorded. Collections made by the Company on behalf of related parties are recorded as liability upon receipt, hence no profit or loss impact.
(c) Intercompany charges to (from), net *Entities under common shareholder*	2,378,819,663	1,097,545,381	These relate to operating expenses incurred by (for) related parties on behalf of (by the) Company. These charges mainly consist of chargebacks for airport ground handling in cross countries, cargo handling fees, consumables and software maintenance and IT costs among others. These also included refunds made by related parties on behalf of the Company. These are billed by (billed to) the Company at cost.

	Transactions 2021	Transactions 2020	Terms and conditions
(d) Shared service agreement *Entity under common shareholder*	115,904,812	37,883,234	The Company has a service agreement with AirAsia SEA Bhd. (AA SEA, formerly AirAsia Global Shared Services Sdn Bhd) to provide finance and accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services (Notes 14). These are charged to profit of loss as part of outside services.
(e) Fuel derivative contracts *Entity under common shareholder*			AAGB enters into Brent and Crack derivative contracts with third parties to hedge the jet fuel requirements of the AirAsia network. For the years ended December 31, 2020 and 2019, AAGB entered into fuel derivative contracts with the Company for its related expected fuel consumption (Notes 10 and 22). Amounts of settled hedges are charged to profit or loss as part of fuel costs.
Settled	39,438,522	1,753,688,167	
Unsettled	-	(107,360,944)	
	39,438,522	1,646,327,223	
(f) Key management compensation			Key management compensation covering salaries and wages and other short-term benefits are determined based on contract of employment and payable in accordance with the Company's payroll process. Key management personnel are also entitled to retirement benefits.
Salaries	63,816,286	61,624,560	
Other short-term employee benefits	8,437,634	10,924,655	
Retirement benefits	29,113,535	23,774,268	
	101,367,455	96,323,483	
(g) Brand licensing agreement *Shareholder of the Parent Company*	6,546,397	113,011,513	Please see related discussions in Note 20.
(h) Offsetting arrangement *Entity under common control*	(324,900)	(2,708,888,447)	On January 20, 2020, AWA's BOD approved the set-off of the outstanding receivable of AWA from the Company against AWA's liability to the Company. Prior to the set-off, AWA has an outstanding receivable from the Company amounting to P3.46 billion. As a result of the arrangement, AWA's remaining receivable from the Company amounted to P753.3 million. In 2021, the Company further offset the outstanding amounts due from AWA from intercompany recharges against its payables. These transactions were accounted for as non-cash operating activities in the statement of cash flows.
(i) Loan and interest payments made on behalf of a related party *Parent company*	969,294,000	413,252,877	At various dates in 2021 and 2020, the Company has made loan principal and interest repayments on behalf of its parent company.

As at December 31, the Company's outstanding related party balances in connection with the aforementioned transactions are as follows:

	Ref	2021	2020	Terms and conditions
Trade and other receivables				These are unsecured, unguaranteed, non-interest bearing, with terms of 30 to 60 days.
Entity under common shareholder (Note 3)	b	93,472,975	55,342,547	
Due from a related party				These are unsecured, unguaranteed, non-interest bearing, and collectible on demand.
Parent company	i	1,333,491,407	365,545,738	
Entity under common shareholder	b, c	464,898,378	-	
		1,891,862,760	420,888,285	
Trade and other payables				These are unsecured, unguaranteed, non-interest bearing, with terms of 30 to 60 days (Note 9).
Entity under common shareholder	a,b, c,e,g	4,327,996,349	4,025,928,263	
Entity under common control		752,976,040	753,300,440	
Parent company	d	892,708,699	881,214,657	In 2021, a shareholder affirmed that it will exercise restraint from calling on the net liabilities due from the Company until December 31, 2022. This restraint will however change once the Company's financial position has improved (Notes 1 and 23).
		5,973,681,088	5,660,443,360	
Due to related parties				These are unsecured, unguaranteed, non-interest bearing, and payable on demand.
Parent company		10,476,727,516	10,134,309,886	
Derivative financial liabilities				These are unsecured, unguaranteed, non-interest bearing, and payable on demand.
Entity under common shareholder (Note 10)	e	-	(107,360,944)	

Suretyship and guarantees

There are no collaterals held or guarantees issued by the Company with respect to related party transactions and balances. AAI continues to provide suretyship as security for the Company's credit line facility with BDO which is also secured by corporate guarantee of AAGB (Note 8).

As at December 31, 2021, and 2020, no obligations have been incurred by the aforementioned related parties in relation to this agreement.

Significant judgment on ECL on due from a related party

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The determination of ECL is initially based on the Company's historically observed default rates adjusted to forward looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

As at December 31, 2021 and 2020, management believes that the amounts due from a related party amounting to recoverable.

Service agreement

In 2014, the Company entered into a service agreement with AA SEA for finance, accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services.

The Service Agreement is effective for a period of three (3) years and may be terminated by either party for any material breach, in the event that the Company terminates its operations, or if AA SEA is not able to provide the agreed services. In 2018, the Service Agreement was extended for another period of three (3) years until December 31, 2021. The Company is in the process of renewing the terms of this service agreement with the related party, but intends to renew for another three (3) years.

Fees charged by AA SEA are based on actual cost of manpower required plus a certain mark-up. These are included in operating expenses as part of outside services account in the statement of comprehensive income.

Note 19 - Income taxes

There is no provision for current income tax recognized for the year ended December 31, 2021 following the Company's gross loss and net loss positions.

The reconciliation of provision for income tax computed at the statutory income tax rate for the years ended December 31 to the income tax expense as shown in the statements of comprehensive income follows:

	2021	2020
Income tax benefit at statutory rate of 25% (2020 - 30%)	(1,608,788,694)	(2,028,102,140)
Adjustments for		
Movement in unrecognized deferred tax assets	623,792,923	253,076,495
Effects of income tax changes	410,106,079	-
Tax expense from unrecognized DTA on NOLCO	574,911,338	1,775,113,267
Non-deductible expenses	5,412	61,523
Interest income subject to final tax	(27,058)	(149,145)
	-	-

DIT assets are determined using income tax rates in the period the temporary differences, NOLCO and MCIT are expected to be recovered or settled. Unrecognized DIT assets (liabilities), net at December 31 are as follows:

	Notes	2021	2020
NOLCO		8,216,689,578	6,569,186,181
Unrealized foreign exchange loss (gain)		1,475,401,805	(807,375,132)
Lease liabilities (right of use assets), net	6	1,339,025,815	(441,250,298)
Allowance for doubtful accounts	3	1,293,307,245	1,239,568,347
Provision for impairment of ROU	6	963,100,000	963,100,000
Fair value changes in derivatives	10	-	107,360,944
Retirement benefit obligation	17	340,402,674	438,012,516
Provision for aircraft redelivery costs	16	150,444,637	133,519,022
		13,778,371,754	8,202,121,580
Deferred tax effect at 25% (2020 - 30%)		3,444,592,939	2,460,636,474
Excess MCIT		95,091,782	105,423,130
Unrecognized DTA		3,539,684,721	2,566,059,604

Movement of unrecognized deferred tax assets charged to other comprehensive income for the years ended December 31 and therefore not forming part of the reconciliation above follows:

	Note	2021	2020
Remeasurement gain (loss) on retirement obligation	17	126,431,265	(70,352,319)
Tax rate		25%	30%
Tax effect		31,607,816	(21,105,696)

NOLCO could be carried over as a deduction from taxable income for the next three consecutive taxable years following the year of such loss.

In 2020, pursuant to Section 4 (bbbb) of Bayanihan II and as implemented under RR 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss.

Details of the Company's NOLCO at December 31 are as follows:

Year loss was incurred	Year of expiration	2021	2020
2018	2021	652,141,956	652,141,956
2020	2025	5,917,044,225	5,917,044,225
2021	2026	2,299,645,353	-
		8,868,831,534	6,569,186,181
Expired during the year		(652,141,956)	-
		8,216,689,578	6,569,186,181
Tax rate		25%	30%
Unrecognized DIT asset on NOLCO		2,054,172,395	1,970,755,854

In compliance with the Act, the Company shall pay the greater of minimum corporate income tax (MCIT), which is 1% (2020 - 2%)of gross income as defined under the Act, and the normal income tax. Any excess of MCIT over the normal income tax shall be carried forward for the next three consecutive taxable years immediately following the period such MCIT was paid.

Details of the Company's MCIT at December 31 are as follows:

Year paid	Year of expiration	2021	2020
2017	2020	-	52,396,910
2018	2021	10,331,348	10,331,348
2019	2022	95,091,782	95,091,782
		105,423,130	157,820,040
Expired during the year		(10,331,348)	(52,396,910)
Unrecognized DIT asset on excess MCIT		95,091,782	105,423,130

Significant judgment on the determination of current and deferred income taxes

Significant judgment is required in determining the income tax expense recognized in profit or loss. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The income tax expense is determined based on assessment income and expense are taxable and deductible, respectively. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax and related liability in the period in which such determination is made.

Realization of the future tax benefit related to DIT assets is dependent on the Company's ability to generate future taxable income during the periods in which these are expected to be recovered. Management has considered these factors in reaching a conclusion to not recognize any of its deferred income tax assets in the statement of financial position, except to the extent of taxable temporary differences on right-of-use assets and unrealized foreign exchange gain, as at December 31, 2021 and 2020.

Passage of Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021, Republic Act (RA) No.11534, otherwise known as CREATE, was signed into law. The salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

1. CIT rate shall be reduced to 25% beginning July 1, 2020 for domestic corporations and resident foreign corporations (RFCs) while January 1, 2021 for non-resident foreign corporations. Domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million, excluding land on which the particular business entity's office, plant and equipment are situated, are subject to 20% income tax.

2. Temporary reduction of the minimum corporate income tax rate to 1% for domestic corporations and RFCs beginning July 1, 2020 until June 30, 2023.

Note 20 - Commitments

Brand License Agreement

On December 16, 2010, AAGB (Licensor) and AAI (Licensee) entered into a Brand License Agreement (BLA). The BLA provides the Licensee a non-exclusive and non-assignable license to reproduce and use the AirAsia Brand: (a) in and for the purpose of Business Operations; (b) under the Permitted Name (including to adopt it as the Licensee's corporate name for the duration of the BLA); (c) in accordance with the AirAsia Branding Guidelines; and (d) in and for the purpose of Marketing Communications.

Pursuant to the BLA, the Licensee shall comply at all times with the recommendations made by the Licensor in respect of the use of the AirAsia Brand. The Licensee shall also use the AirAsia brand in accordance with all mandatory standards, specifications and operating procedures and other obligations contained in the Licensor's procedures manual, subject to applicable laws. The BLA provides that nothing in the agreement shall be construed to give control over the services and licensed flights to the Licensor. The Licensee shall have the technical and operational control of the aircraft used for the business operations and shall comply with all applicable laws governing such activity, including, as a minimum, those specified by the relevant competent authorities, and shall have the final authority concerning the operation, maintenance and safety of the aircraft and its passengers and crew.

The BOD of AAI has the power to amend and/or revise the BLA upon agreement with the Licensor under Clause 27.1 of the BLA.

On January 1, 2013, AAGB and AAI entered into an addendum to the BLA wherein AAGB granted AAI a limited authority to sub-license the AirAsia Brand to the Company for a period of six (6) months effective from September 26, 2013, subject to renewal option.

On January 4, 2017, the Company, AAGB and AAI entered into an Amendment and Extension Agreement of the BLA. Amendments to the 2010 BLA includes the following:

- The BLA was amended to include the Company as a Licensee
- Ratification of the effectivity of the BLA which was extended for another five (5)-year term from December 16, 2015 to December 15, 2020; and,
- The Company and AAI have undertaken to comply at all times, insofar as feasible and permissible under the laws of the Philippines, with the recommendations made by AAGB under the BLA.

On May 2, 2019, an amendment was executed which provided for the effectivity of the BLA for five (5) years from January 2019; and automatic extension for five (5) years by mutual agreement by AAGB and the Company.

Further in 2021, the Group recalibrated the BLA charge rates across the entities in using the AirAsia Brand and reduced the license fee equivalent to 0.35% (2020 - 1.75%) of revenue per annum. The Company shall also pay the Licensor additional marketing cost as may be agreed between the parties and allocated as Licensee's contribution.

For the year ended December 31, 2021, brand license fees charged to profit or loss amounted to P6.5 million (2020 - P113.01 million) (Note 18).

Note 21 - Significant judgments, use of estimates and assumptions

Estimates, assumptions and judgments 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.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

21.1 Critical accounting estimates and assumptions

- *Estimation of allowance for ECL on trade receivables (Note 3)*
- *Impairment of right-of-use assets (Note 6)*
- *Determination of provisions (Note 9)*
- *Estimation of fair value of derivative instruments (Note 10)*
- *Estimation of provision for aircraft redelivery costs (Note 16)*
- *Estimation of incremental borrowing rate - leases (Note 16)*
- *Estimation of retirement benefit obligation (Note 17)*

21.2 Critical judgment in applying the Company's accounting policies

- *Assessment of the Company's ability to continue as a going concern (Note 1)*
- *Determination of net realizable value of expendable parts, materials and supplies (Note 4)*
- *Recoverability of property and equipment and ROU asset (Note 6)*
- *Recoverability of due from a related party (Note 18)*
- *Determination of current and deferred taxes (Note 19)*
- *Determination of functional currency (Note 22)*

Note 22 - Financial risk and capital management

22.1 Financial risk factors

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, due from a related party, refundable deposits, trade and other liabilities (excluding amounts payable to government agencies and agent deposits), lease liabilities and loans payable. The main purpose of these financial instruments is to finance the Company's operations. The Company also enters into fuel derivative transactions to manage its exposure to fuel price risks arising from the Company's operations.

The Company is exposed to a variety of financial risks: credit risk, liquidity risk and market risks (particularly foreign exchange risk, interest rate risk and fuel price risk). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company has no significant financial assets and liabilities exposed to other market risks such as price risk.

Financial risk management is carried out by a Company's local finance team under policies approved by the Board of Directors (BOD) and its shareholders. These policies focus on actively securing the Company's short to medium term cash flows by minimizing the exposure to financial markets. The Company does not engage in the trading of financial assets for speculative purposes.

22.2 Components of the Company's financial assets and liabilities

Details of the Company's financial assets as at December 31 are as follows:

	Notes	2021	2020
At amortized cost			
Cash	2	41,855,266	40,393,979
Trade and other receivables	3	1,443,199,691	1,380,105,289
Due from a related party	18	1,798,389,785	365,545,738
Deposits	7	760,612,601	728,547,956
		4,044,057,343	2,514,592,962

As at December 31, 2021, trade and other receivables are presented gross of allowance for impairment of receivables amounting P1,293,307,245 (2020 - P1,239,568,347).

As at December 31, 2021, spares and maintenance deposits and other deposits amounting to P24,986,595 (2020 - P20,644,231) are considered as non-financial assets.

Details of the Company's financial liabilities as at December 31 are as follows:

	Notes	2021	2020
At amortized costs			
Trade and other payables	9	13,735,591,836	11,134,278,642
Due to related parties	18	10,476,727,516	10,134,309,886
Loans payable	8	974,229,767	916,994,530
Lease liabilities	16	14,613,030,500	12,316,353,273
Provision for aircraft redelivery costs	16	150,444,637	133,519,022
Future interest payable on loans and leases		2,531,035,901	1,304,422,884
At fair value			
Derivative financial liabilities	10	-	107,360,944
		42,481,060,157	36,047,239,181

Trade and other payables exclude payable to government agencies, provision for claims and deposits from travel agents which are considered as non-financial liabilities.

22.3 Credit risk

Credit risk refers to the risk that a counterparty will cause a financial loss to the Company by failing to discharge an obligation. Significant changes in the economy, that may represent a concentration in the Company's business, could result in losses that are different from those provided for at reporting dates.

Credit risk arises from cash deposits with banks, as well as credit exposure on trade and other receivables, due from a related party and deposits from other counterparties, and derivative financial assets. The Company's maximum exposure is equal to the fair value of these financial assets. The fair values of these financial assets approximate their net carrying amounts.

Provision for impairment of financial assets are determined using ECL. A credit loss is the difference between the contractual cash flows to which the Company is entitled and the cash flows expected by the Company. Since the ECL takes into account the amount and timing of payments, a credit loss may also occur if the Company expects payment to be made in full, but later than the contractually agreed date.

ECL is determined through a three-stage general approach. In accordance with the three-stage model, debt instruments measured at amortized cost are initially recognized in Stage 1. The expected loss is equal to the loss that may occur due to possible default events in the twelve months following the reporting date. Financial assets that have experienced a significant increase in credit risk of the counterparty since initial recognition are transferred from Stage 1 to Stage 2. A significant increase includes situations in which debtors are no longer able to meet their payment obligations at short notice or when it appears that the debtor has experienced an actual or expected deterioration in business performance. The credit risk can then be measured using the probability of default over the instrument's lifetime. The impairment loss is equivalent to the loss that may occur due to possible default events during the remaining term of the financial asset. If there is objective evidence that a financial asset is impaired, it must be transferred to Stage 3.

The Company has the following financial assets as at December 31 where the expected credit loss model has been applied:

	Gross carrying amount	Credit risk Stage 1	Stage 2	Stage 3	Loss allowance	Net carrying amount
2021						
Cash in banks	40,139,266	40,139,266	-	-	-	40,139,266
Trade and other receivables	149,892,446	28,822,165	121,070,281	-	-	149,892,446
Cargo agents	1,293,307,245	-	-	1,293,307,245	(1,293,307,245)	-
Due from a related party	1,798,389,785	1,798,389,785	-	-	-	1,798,389,785
Deposits	760,612,601	760,612,601	-	-	-	760,612,601
	4,042,341,343	2,627,963,817	121,070,281	1,293,307,245	(1,293,307,245)	2,749,034,098
2020						
Cash in banks	38,647,979	38,647,979	-	-	-	38,647,979
Trade and other receivables	140,536,942	65,832,708	74,704,234	-	-	140,536,942
Cargo agents	1,239,568,347	-	-	1,239,568,347	(1,239,568,347)	-
Due from a related party	365,545,738	365,545,738	-	-	-	365,545,738
Deposits	728,547,956	728,547,956	-	-	-	728,547,956
	2,512,846,962	1,198,574,381	74,704,234	1,239,568,347	(1,239,568,347)	1,273,278,615

Credit quality of the Company's financial assets

Cash in banks

To minimize credit risk exposure from cash in banks, the Company maintains cash deposits in reputable banks. For balances with banks and financial institutions, credit risk is managed in accordance with the Company's policy. Counterparty limits are reviewed and approved by the Company's Board of Directors (BOD) and are updated when necessary. Cash are placed in various local banks that have good reputation and low probability of insolvency.

Amounts deposited in these banks as at December 31 are as follows:

	2021	2020
Universal	33,211,837	34,535,767
Commercial	6,927,429	4,112,212
	40,139,266	38,647,979

The remaining balance of cash as presented in the statements of financial position as at December 31, 2021 amounting to P1,716,000 (2020 - P1,746,000), represent cash on hand, which is not exposed to credit risk.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit quality of trade and other receivables are further classified and assessed by reference to historical information about each counterparty's historical default rates). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Company's historically observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Stage 1 - Customer balances without history of default and assessed to be fully recoverable.
Stage 2 - Customers with some defaults in the past. All defaults were fully recovered.
Stage 3 - Individual assessed customer with defaults and which the Company no longer expects to recover the balance despite its collection efforts. Loss rates applied for outstanding amounts in this stage is 100%.

Due from related parties

Due from related parties arise mainly from advances and payments made by the Company on behalf of its related parties. These collectible on demand and therefore, expected credit losses are based on the assumption that repayment of balances outstanding are demanded at the reporting date.

Based on assessment of qualitative and quantitative factors that are indicative of the risk of default, including but not limited to, availability of accessible highly liquid asset and internal and external funding of related parties, Company has assessed that the outstanding balances are exposed low credit risk. Expected credit losses on these balances have therefore been assessed to be insignificant.

Deposits

Deposits that are neither past due nor impaired consist primarily of amounts related to the Company's aircraft leases which are fully collectible at the end of the lease term.

None of the financial assets that are fully performing has been renegotiated as at December 31, 2021 and 2020.

22.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity risk management implies maintaining sufficient cash, timely collection of receivables from customers, 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 its underlying business, the Company aims to maintain flexibility in funding by keeping track of daily cash sales collections and maintaining committed credit lines available with local banks. The Company also obtains funding from its shareholders as well as other third-party banking institutions, as necessary, to finance its operations and working capital requirements.

The amounts disclosed are the contractual undiscounted cash flows. Amounts due within twelve months equal their carrying balances, as the impact of discounting is not significant.

The tables below analyze the Company's financial liabilities and financial assets held to manage liquidity into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

	Due and demandable	Due within one year	Within 1 to 5 years	Later than 5 years	Total
At December 31, 2021					
Trade and other payables	-	13,735,591,836	-	-	13,735,591,836
Due to related parties	10,476,727,516	-	-	-	10,476,727,516
Loans payable	-	974,229,767	-	-	974,229,767
Lease liabilities, gross	-	6,997,763,884	6,678,156,935	3,430,993,027	17,106,913,846
Provision for aircraft redelivery costs	-	41,245,789	109,198,848	-	150,444,637
Future interest payable on loans	-	37,152,555	-	-	37,152,555
	10,476,727,516	21,785,983,831	6,787,355,783	3,430,993,027	42,481,060,157

	Due and Demandable	Due within one year	Within 1 to 5 years	Later than 5 years	Total
At December 31, 2020					
Trade and other payables	-	11,134,278,642	-	-	11,134,278,642
Due to related parties	10,134,309,886	-	-	-	10,134,309,886
Loans payable	-	916,994,530	-		916,994,530
Lease liabilities, gross	-	4,936,755,260	7,144,401,327	1,505,296,614	13,586,453,201
Provision for aircraft redelivery costs	-	5,859,841	127,659,181	-	133,519,022
Future interest payable on loans	-	34,322,956	-	-	34,322,956
Derivative financial liabilities	-	107,360,944	-	-	107,360,944
	10,134,309,886	17,135,572,173	7,272,060,508	1,505,296,614	36,047,239,181

22.5 Market risk

a) *Foreign currency exchange risk*

Foreign currency exchange risk is the risk that the value of future cash flows of a financial instrument Will fluctuate because of changes in foreign exchange rates.

The Company closely monitors changes in foreign exchange rates and records any exchange gains or losses in profit or loss. Most of the Company's transactions are carried out in Philippine Peso. Exposures to currency exchange rates arise from the Company's overseas purchases, which are primarily denominated in United States (US) Dollar, Chinese Yuan (CNY) and Korean Won (KRW).

The Company manages its foreign currency exchange risk through minimizing transactions in foreign currency and maintaining sufficient cash in foreign currency to cover its maturing obligations denominated in foreign currency.

The Company's foreign currency denominated monetary assets and liabilities as of December 31 are as follows:

	2021					
	USD	Philippine Peso equivalent	CNY	Philippine Peso equivalent	KRW	Philippine Peso equivalent
Cash	$56,162	P2,865,947	¥292,557	P2,343,382	₩30,975,254	P1,239,010
Trade and other receivables	22,691,900	1,157,967,657	-	-	2,431,061,501	97,242,460
Deposits	13,321,076	679,774,508	6,200,000	49,662,000	-	-
	$36,069,138	P1,840,608,112	¥6,492,557	P52,005,382	₩2,462,036,755	P98,481,470
Trade and other payables	(84,094,803)	(4,291,357,797)	(4,096,490)	(32,812,885)	(1,630,357,043)	(P65,214,282)
Due to related parties	(118,049,925)	(6,024,215,167)	(1,438,986)	(11,526,278)	-	-
Loans payable	(19,090,909)	(974,209,086)	-	-	-	-
Lease liabilities	(286,355,501)	(14,613,030,500)	-	-	-	-
Asset retirement obligation	(2,948,098)	(150,441,441)	-	-	-	-
	($510,539,236)	(P26,053,253,991)	(¥5,535,476)	(P44,339,163)	(₩1,630,357,043)	(P65,214,282)
Net foreign currency assets (liabilities)	($474,470,098)	(P24,212,645,879)	¥957,081	P7,666,219	₩831,679,712	P33,267,188

	2020					
	USD	Philippine Peso equivalent	CNY	Philippine Peso equivalent	KRW	Philippine Peso equivalent
Cash	$213,303	P10,244,948	¥177,100	P1,305,224	₩14,285,135	P571,405
Trade and other receivables	25,274,734	1,213,945,480	-	-	2,431,061,501	97,242,460
Deposits	13,400,450	643,623,617	6,200,000	45,694,000	-	-
	$38,888,487	1,867,814,045	¥6,377,100	46,999,224	₩2,445,346,636	97,813,865
Trade and other payables	(50,915,531)	(2,445,472,956)	(3,529,935)	(26,015,623)	(3,097,396,128)	(123,895,845)
Due to related parties	(118,049,925)	(5,670,303,853)	(1,898,265)	(13,990,216)		
Loans payable	(19,090,909)	(916,995,546)	-	-	-	-
Lease liabilities	(254,292,983)	(12,214,480,275)	-	-	-	-
Asset retirement obligation	(2,779,909)	(133,519,021)	-	-	-	-
	($445,129,257)	(21,380,771,651)	(¥5,428,200)	(40,005,839)	(₩3,097,396,128)	(123,895,845)
Net foreign currency assets (liabilities)	($406,240,770)	(19,512,957,606)	¥948,900	P6,993,385	(₩652,049,492)	(P26,081,980)

The exchange rates used to restate the Company's foreign currency-denominated assets and liabilities as at December 31 are as follows:

	2021	2020
US Dollar	P51.03 to US$1.00	P48.03 to US$1.00
Chinese Yuan	P8.01 to ¥1.00	P7.37 to ¥1.00
Korean Won	P0.04 to ₩1.00	P0.04 to ₩1.00

Details of foreign exchange gain (loss) charged to profit or loss for the years ended December 31 are as follows:

	2021	2020
Realized foreign exchange gain	18,630,565	347,234,265
Unrealized foreign exchange (loss) gain	(1,475,401,805)	807,375,132
	(1,456,771,240)	1,154,609,397

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's loss before tax as at December 31:

	2021		
Increase/decrease in foreign exchange rates	USD	CNY	KRW
+0.55%	(107,321,472)	38,464	(215,001)
-0.55%	107,321,472	(38,464)	215,001

	2020		
Increase/decrease in foreign exchange rates	USD	CNY	KRW
+0.54%	(105,370,219)	37,764	(211,092)
-0.54%	105,370,219	(37,764)	211,092

The reasonable possible changes in foreign exchange rates in 2021 and 2020 used in the sensitivity analyses were determined based on average movement in the monthly exchange rates during the past 12 months from reporting dates.

Significant judgment on determination of functional currency

The Company's booking revenues are in various currencies. Bank loans and certain costs, including fuel, repairs and leases are incurred in US$, while some costs and expenses (e.g., salaries and wages) are in Philippine Peso. PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Company's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company.

In making this judgment, the Company considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained

Management determined that Philippine Peso is the functional currency for the Company, after considering the criteria stated in PAS 21.

b) *Interest rate risks*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to its loans payable with floating and/or fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

As at December 31, 2021 and 2020, the Company's loans payable is subject to floating interest rate. If interest rates increase/decrease by 100 basis points (all other variables held constant), profit (2020 - loss) before income tax would have been P9.74 million higher / lower (2020 - P9.17 million higher/lower).

c) *Fuel price risk*

The Company is exposed to jet fuel price risk and seek to hedge its fuel requirements using fuel swaps. This risk is managed at AAGB level through hedging strategies with the objective of managing price levels within an acceptable band.

Upon maturity date of remaining derivative financial instruments in April 2021, the Company has not further participated in the Group's hedges.

The Company's derivative assets arising from fuel derivative contracts amounted to nil as at December 31, 2021 (2020 - nil), while its derivative liabilities amounted to nil as at December 31, 2021 (2020 - P107.36 million).

There is an economic relationship between the hedged items and the hedging instruments as the terms of the fuel price swaps and options match the terms of the hedged items (i.e., notional amount and expected payment date). The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the fuel price swaps and options are identical to the hedged risk components. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks

Hedge ineffectiveness can arise from differences in the timing of the cash flows of the hedged items and the hedging instruments and the counterparties' credit risk differently impacting the fair value movements of the hedging instruments. No hedge ineffectiveness is recognized in the statement of total comprehensive income for the year ended December 31, 2021 (Note 10).

Maturity profile of derivative financial instruments as at December 31, 2021 is no longer significant following the expiration of the hedge contracts.

Following is the maturity profile of derivative financial instruments as at December 31, 2020:

	One to three months	Three to six months	Six to 12 months	12 to 15 months	More than 15 months	Total
Designated hedges						
Brent swaps						
Notional quantity	55,732 bbl	-	145,531 bbl	-	-	201,263 bbl
Notional amount	$3,423,296	-	$9,273,570	-	-	$12,696,866
Average hedged rate	$61.42	-	$63.72	-	-	$62.57
Not designated hedges						
Brent swaps						
Notional quantity	-	-	-	-	-	-
Notional amount	$-	$-	$-	$-	$-	$-
Average hedged rate	-	-	-	-	-	-
Brent options						
Notional quantity	-	-	-	-	-	-
Notional amount	$-	$-	$-	$-	$-	$-
Average hedged rate	-	-	-	-	-	-
Crack swaps						
Notional quantity	-	-	-	-	-	-
Notional amount	$-	$-	$-	$-	$-	$-
Average hedged rate	-	-	-	-	-	-
Crack options						
Notional quantity	-	-	-	-	-	-
Notional amount	$-	$-	$-	$-	$-	$-
Average hedged rate	-	-	-	-	-	-

22.6 Fair value estimation

As at December 31, 2021 and 2020, the carrying amounts of the Company's cash, trade and other receivables, due from a related party, trade payables and other current liabilities, loans payable and due to related parties approximate their fair values due to the short-term nature of these financial instruments.

The derivative financial instruments are carried at fair value as at December 31, 2021 and 2020. The fair values of the instruments are determined using forward fuel price at the balance sheet date, with the resulting value discounted back to present value (Level 2).

As at December 31, 2021, the fair value of the refundable deposits which are expected to be collected beyond 12 months, amounted to P 749.80 million (2020 - P724.84 million) using the discounted cash flow method and prevailing market interest rate as published in BVAL reference as at December 31, 2021. This is classified under level 2 of the fair value hierarchy.

For the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Changes in liabilities arising from financing activities

	2021				
	Loans payable	Accrued interest on loan	Due to related parties	Lease liabilities	Total
Balance at beginning of year	916,994,530	780,581	10,134,309,886	12,316,353,273	23,368,438,270
Additions	-	-	-	1,699,176,651	1,699,176,651
Settlements	-	(36,036,083)	-	(349,229,409)	(385,265,492)
Interest accrual/accretion	-	37,152,555	-	463,763,955	500,916,510
Foreign exchange differences	57,235,237	(780,581)	342,417,630	506,872,532	905,744,818
Other non-cash changes	-	-	-	(23,906,502)	(23,906,502)
Balance at end of year	974,229,767	1,116,472	10,476,727,516	14,613,030,500	26,065,104,255

	2020				
	Loans payable	Accrued interest on loan	Due to related parties	Lease liabilities	Total
Balance at beginning of year	1,049,790,527	4,259,871	10,445,662,702	13,123,519,042	24,623,232,142
Additions	-	-	-	602,640,365	602,640,365
Settlements	(81,119,166)	(33,542,375)	-	(1,397,700,792)	(1,512,362,333)
Interest accrual/accretion	-	34,322,956	-	500,466,766	534,789,722
Foreign exchange differences	(51,676,831)	(4,259,871)	(311,352,816)	(512,572,108)	(879,861,626)
Balance at end of year	916,994,530	780,581	10,134,309,886	12,316,353,273	23,368,438,270

22.7 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital (Note 1). In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

The Company is subject to externally imposed capital requirements (Note 8).

Total capital being managed by the Company is equal to total equity as shown in the statement of financial position excluding reserve for remeasurement of retirement benefit and reserve on cashflow hedge.

Note 23 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

23.1 Basis of preparation

These financial statements of the Company have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations of the Standing Interpretations Committee (SIC), International Financial Reporting Interpretations Committee (IFRIC) and Philippine Interpretations Committee (PIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost basis, except for the derivatives on hedge that are measured at fair values.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 21.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

The Company has applied the following amendment for the first time for the financial year beginning January 1, 2021:

- Amendment to PFRS 16, Leases, COVID-19-related rent concession

Amendment to PFRS 16 amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments are effective for annual periods beginning on or after April 1, 2021. Please refer to Note 16 for the discussions on the related impact of lease modifications to the Company.

(b) New standards, amendments and interpretations not yet adopted

- PAS 1: Classification of Liabilities as Current or Non-current

Amendments to paragraphs 69 to 76 of PAS 1 were issued to specify the requirements for classifying liabilities as current or non-current. The amendments clarify the following:

- the definition of right to defer settlement;
- that a right to defer must exist at the end of the reporting period;
- that classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

- Amendments to PAS 8 - Definition of Accounting Estimates

Amendments to help entities to distinguish between accounting policies and accounting estimates. The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendments are effective for annual periods beginning on or after January 1, 2023.

- Amendments to PAS 1 - Disclosure of Accounting Policies

Amendments to require disclose its material accounting policy information instead of its significant accounting policies and explanations on how an entity can identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023.

- PFRS 9 Financial Instruments - Fees in "10 per cent" Test for Derecognition of Financial Liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

- Reference to the Conceptual Framework

Amendments to PFRS 3 are intended to replace a reference to a previous version of the 1989 Conceptual Framework with a reference to the current version of the Conceptual Framework issued in March 2018 without significantly changing its requirements. The guidance is effective as of January 1, 2022, with early adoption permitted.

- Onerous Contracts - cost of fulfilling a contract Standard/Description

This guidance specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. It clarifies that the 'cost of fulfilling' a contract comprises the costs that relate directly to the contract, which can either be incremental costs to fulfil or an allocation of other costs related directly to fulfilment. The guidance is effective for annual periods beginning on or after January 1, 2022, with early adoption permitted.

- Disclosure of Accounting Policies (Amendments to PFRS 1 and PFRS Practice Statement 2)

The FRSC amended IFRS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the FRSC also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

- Definition of Accounting Estimates (Amendments to PAS 8)

The amendment to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

The Company does not expect these amendments to have a significant impact to the Company's financial statements.

There are no other standards, amendments and interpretations which are effective for the financial year beginning January 1, 2021 that are relevant to and have a material impact on the Company's financial statements.

23.2 Financial instruments

23.2.1 Financial assets

Classification

The Company classifies its financial assets in the following measurement categories: (a) those to be measured subsequently at fair value (either through OCI or through profit or loss), and (b) those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company's financial assets category (b) includes cash in banks, trade and other receivables (Note 3), due from a related party (Note 18) and deposits except for spares and maintenance deposits (Note 7).

Financial assets are included in current assets, except when these are expected to be received or realized more than twelve (12) months after the financial reporting date which are classified as non-current assets.

Recognition and measurement

The Company recognizes a financial asset in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Regular-way purchases and sales of financial assets are recognized on trade date - the date on which the Company commits to purchase or sell the asset.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Trade receivables are measured at the transaction price determined under PFRS 15.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The measurement categories into which the Company classifies its debt instruments financial assets are as follows:

- Amortized cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income/(expense), net.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognized in other income/(expenses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/(expenses).

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other income/(expenses) in the period in which it arises.

Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Loss allowances of the Company are measured on either of the following bases:

- 12-month expected credit losses (ECLs): these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset

The Company applies the general approach to provide for ECLs on its financial assets. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 180 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the counterparty;
- a breach of contract such as actual default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off and recovery

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Subsequent recoveries of amounts previously written-off are credited against operating expenses in profit or loss.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss.

23.2.2 Financial liabilities

Classification

The Company classifies its financial liabilities in the following categories: (i) financial liabilities at fair value (including financial liabilities held for trading and those that are designated at fair value) and (ii) financial liabilities at amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The Company did not hold financial liabilities under category (i) during and at the end of each reporting period.

The Company's financial liabilities under category (i) includes derivative liabilities (Note 10). The Company's financial liabilities at amortized cost includes trade payables and other liabilities (excluding payable to government agencies and deposits from travel agents), lease liabilities, loans payables and due to related parties.

These are included in current liabilities, except for maturities greater than 12 months after the reporting date which are classified as non-current liabilities.

The Company's financial liabilities are disclosed in Note 22.

Initial recognition and subsequent measurement

The Company recognizes a financial liability in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial liabilities at amortized cost are initially measured at fair value plus transaction costs. Subsequently, these are measured at amortized cost using the effective interest method. Interest expense on financial liabilities is recognized within finance cost, at gross amount, in profit or loss.

Derecognition

Financial liabilities are derecognized when extinguished, that is, when the obligation specified in a contract is discharged or cancelled or when the obligation expires.

23.2.3 Derivative financial instruments

The Company uses derivative financial instruments, such as swaps and options, to hedge its fuel price risks. Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 10. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

As at and for the years ended December 31, 2021 and 2020, the Company did not have fair value hedges and net investment hedges.

Cash flow hedge

Effective January 1, 2019, the Company designated the derivative contracts as cash flow hedges. In cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income (OCI) in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability.

This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any accumulated OCI of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the accumulated OCI of hedging that were reported in equity are immediately reclassified to profit or loss.

23.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty. The Company has no existing offsetting arrangements as at December 31, 2021 and 2020.

23.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

For non-financial assets, the Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities take into account non-performance risk, which is the risk that the entity will not fulfil an obligation.

23.5 Cash

Cash includes cash on hand and deposits held at call with banks. These are carried in the statements of financial position at face amount or at nominal amount, which approximates its amortised cost using the effective interest rate method. Cash in banks earn interest at prevailing bank deposit rates.

23.6 Receivables

Trade receivables arising from regular sales with an average credit term of approximately 30 days are measured initially at transaction price plus transaction costs, which approximates the original invoice amount, and subsequently measured at amortized cost less any provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

The relevant policies on classification, recognition, measurement, impairment and derecognition are further disclosed in Note 23.2.

23.7 Expendable parts, materials and supplies

Expendable parts, materials and supplies which are essentially the Company's inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of inventories comprises of all costs of purchases and other costs incurred in bringing it to their present location and condition attributable to purchase of these inventories. Cost of these inventories is further reduced by provision for inventory obsolescence, if any.

Expendable parts, materials and supplies are derecognized in the statement of financial position when consumed or written-off. When inventories are consumed, the carrying amount of these expendable parts, materials and supplies is recognized as an expense.

23.8 Prepaid expenses and other assets

Prepayments are recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Advances to suppliers represent advance payments to suppliers relating to importation of goods purchased and payments to contractors for acquisition of capital equipment that require certain percentage of down payments. These are recognized at fair value, which approximate the suppliers' invoice amounts, and subsequently capitalized as inventories or property and equipment when the related goods or equipment have been delivered.

Prepayments and advances to suppliers are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting date which are classified as non-current assets.

Other assets in the form of CWTs and Input VAT represent taxes imposed on the Company for the acquisition of goods and services. These are stated at face value less any provision for impairment and are utilized when there is a legally enforceable right to offset the recognized amounts against output VAT obligations and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Input VAT are included in current assets, except when utilization and claims against output VAT are expected to be more than twelve (12) months after the reporting date, in which these are classified as non-current assets.

23.9 Property and equipment

Property and equipment are recognized at cost upon initial recognition. Cost includes the purchase price and expenditure that is directly attributable to the acquisition of the items including the cost of bringing the assets to its location and working condition.

Following the initial recognition at cost, all items of property and equipment are subsequently measured at cost less accumulated depreciation, amortization and any impairment. Subsequent costs are included in the asset's carrying amount or recognized 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. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is calculated using the straight-line method to allocate the cost of each asset, less its residual value, over its estimated useful lives, as follows:

	Number of years
Aircraft support machinery and equipment	5 to 8
Motor vehicles	5
Office furniture and fixtures	5
Computer hardware and system	5

Leasehold improvements are amortized over the lease period or useful lives of 10 years, whichever is shorter.

The assets' useful lives, and depreciation and amortization method are reviewed periodically to ensure that the period and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. When assets are derecognized, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts. Any gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are recognized in profit or loss.

23.10 Aircraft redelivery costs

Provision for aircraft redelivery costs arose from the Company's obligation, under its operating lease contracts, to bear certain costs of restoration, among others, at the time of the scheduled redelivery of the aircraft. A corresponding asset is recognized as part of property and equipment. Redelivery costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and is recognized in the statement of comprehensive income under "Interest expense" account. The estimated future costs of redelivery are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the asset. The amount deducted from the cost of the asset shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the statement of income.

23.11 Impairment of non-financial assets

Non-financial assets, such as property and equipment (including the right-of-use assets) and prepayments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

23.12 Trade payables and other liabilities

Accounts payable and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. These are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost using effective interest method. Accounts payable and other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable and other liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired.

23.13 Borrowings and borrowing costs

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of total comprehensive income over the period of the borrowings using the effective interest method.

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

Borrowings are derecognized when the obligation is settled, paid or discharged.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognized and charged to operations in the year in which these are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are recorded as property and equipment, as applicable. All other borrowing costs are expensed in the period they occur.

As at December 31, 2021, and 2020, there are no borrowing costs directly attributable to the construction of a qualifying asset.

23.14 Leases

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are classified in the consolidated financial position as part of property and equipment.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

	Number of years
Passenger aircraft	5 to 8
Engines	5
Office	3

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets consist mainly for bus rental and office space, which are recognized as expense on a straight-line basis over the lease term.

23.15 Equity

Share capital

The Company's share capital consists of common shares and preferred shares. Capital stock is measured at par value. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of any tax effects.

Preferred shares that are not redeemable or are redeemable at the option of the Company and where payment of dividends is discretionary are classified as equity.

Deficit

Deficit represents accumulated losses of the Company less dividends declared if any, and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retrospectively. The Company is in a deficit position as at December 31, 2021 and 2020. Hence, there are no declarable dividends.

23.16 Revenue

The Company is in the business of providing air transportation services. Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Company expects to be entitled to. The specific recognition criteria for each type of revenue are as follows:

Passenger, cargo and other revenues

Passenger, cargo and other revenues (e.g., baggage fees, rebooking fees and other auxiliary income) are recognized over time when the services are rendered (i.e., when the passenger or cargo is lifted), and when applicable, are stated net of discounts. Collections for which services have not been rendered are recognized as contract liability (referred to herein as 'Unearned revenue'). Unearned revenue from passenger ticket are recognized as revenue once the service has been rendered based on the terms and conditions of the ticket.

The carrying amount of unearned revenue as at December 31, 2021 amounted to P1.710 billion (2020 - P1.751 billion). For the year ended December 31, 2021, the Company earned revenue from its contract liabilities as at beginning of the year amounting to P255 million (2020 - P3.76 billion).

Sales of in-flight meals and merchandise

Other revenues pertaining to sale of inflight meals and merchandises are recognized at the point in time when control of the asset is transferred to the customer, generally on the delivery and acceptance by the customers of the goods.

23.17 Other income

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method when it is determined that such income will accrue to the Company.

Other income

All other income is recognized when earned or when the right to receive payment is established.

23.18 Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities (or unearned revenues)

A contract liability (presented as Unearned revenue in the statement of financial position) is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Contract liabilities mainly consists of unearned revenues arising from collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

23.19 Costs and expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. These are presented in the statements of total comprehensive income according to function of such costs and expenses.

Cost of services

Cost of services represents costs incurred in relation to Company's inflight services. These costs include fuel, staff costs for its flight and ground crews, depreciation of aircraft fleet and ground handling related costs.

Operating expenses

Costs of day-to-day operations are generally expensed when incurred.

23.20 Employee benefits

Short-term benefits

Provision is made for benefits accruing to employees in respect of wages and salaries when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured using their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Retirement benefit obligation

The Company recognized retirement benefit obligation computed based on a defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long-term Philippine treasury 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 obligation.

In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on the PHP BVAL Reference Rates adjusted based on the average durations of the benchmark government bonds as at the valuation date, considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

Defined benefit cost is comprised of the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. Current and past service costs are recognized immediately in profit or loss.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account remeasurement gains (losses) on retirement plans are not reclassified to statement of income in subsequent periods.

Curtailment gain or loss resulting from the reduction in number of employees covered by the plan are recognized immediately in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Compensated absences

Compensated absences are recognized for the number of paid leave days, including holiday entitlement, remaining at the end of the reporting period. These are included in trade payables and other current liabilities account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

23.21 Current and deferred income tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax (DIT) is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. DIT is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

DIT assets are recognized for all deductible temporary differences and carry-forward of unused tax losses (net operating loss carryover or NOLCO) and tax credits (MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses and tax credits can be utilized.

DIT liabilities are recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

DIT 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 taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

DIT expense or credit is recognized for changes in DIT assets and liabilities during the reporting period. Income tax expense includes income tax as currently payable and those deferred because of temporary differences in the financial and tax reporting bases of assets and liabilities, and unused tax losses and tax credits.

No deferred income tax assets were recognized for temporary differences as management believes that it will not be able to generate sufficient taxable profit to allow for the benefits of the deferred income tax assets to be utilized in the near future. The Company reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

23.22 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among entities which are under control with the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

23.23 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized from the statement of financial position.

23.24 Contingencies

Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed when an inflow of economic benefits is probable.

23.25 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are prepared in Philippine Peso, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the Philippine Peso using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of total comprehensive income.

23.26 Events after the financial reporting date

Any post year-end event up to the date of the approval of the financial statements that provides additional information about the Company's position at reporting date (adjusting event) is reflected in the financial statements. Any post year-end event that is not an adjusting event is disclosed, when material, in notes to the financial statements.

Note 24 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by RR No. 15-2010:

(i) Output VAT

Output VAT declared for the year ended December 31, 2021 and the gross revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Sales/receipts		
Subject to 12% VAT	1,812,138,066	217,456,567
Subject to zero-rated VAT	527,787,539	-
VAT exempt	-	-
Total	2,339,925,605	217,456,567
Applied input VAT		178,241,516
Net VAT payable		39,215,051

Receipts from the transport of passengers and cargoes to and from places within the Philippines are subject to 12% VAT. Gross receipts from international operations are either exempt or zero-rated. Transport from the Philippines to foreign countries are zero-rated while inbound transport is VAT exempt.

The gross revenues on sale of services are based on gross receipts of the Company while gross revenues amounting to presented in the statements of total comprehensive income are measured in accordance with the Company's accounting policy.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2021 are as follows:

Beginning balance	30,716,778
Add: Current year's domestic purchases/payments for:	
Goods	81,917,825
Services	57,570,613
Importation of goods other than capital goods	8,036,300
Total	178,241,516
Application against output VAT	(178,241,516)
	-

(iii) Documentary stamp tax (DST)

For the year ended December 31, 2021, the Company incurred DST amounting to P P2,684,565 in relation to insurance premiums and borrowings obtained during the year.

(iv) Other taxes and licenses

All other local and national taxes paid and accrued for the year ended December 31, 2021 consist of:

Permits and license fees	1,701,360
Local business	781,866
	2,483,226

(v) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2021 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	2,379,002	103,686,859	106,065,861
Expanded withholding tax	1,415,877	16,897,700	18,313,577
Final withholding tax	1,355,121	53,632,964	54,988,085
	5,150,000	174,217,523	179,367,523

Accrued taxes are included in payable to government agencies Within trade payables and other current liabilities in the statement of financial position.

(vi) Tax assessments

On July 21, 2021, the Company has received a Final Assessment Notice (FAN) from the BIR for the taxable year 2021 covering all taxes. The FAN is currently under protest and has not yet been settled as of reporting date.

(vii) Tax cases

The Company does not have any outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside of the BIR as at and for the year ended December 31, 2021.

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Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at December 31, 2022 and 2021 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of total comprehensive income for the years ended December 31, 2022 and 2021;
- the statements of changes in equity for the years ended December 31, 2022 and 2021;
- the statements of cash flows for the years ended December 31, 2022 and 2021; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Independent Auditor's Report
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Philippines AirAsia Inc. doing business under the name and style of AirAsia
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Page 2

Material Uncertainty Regarding Going Concern

We draw attention to Note 1.2 in the financial statements, which indicates that the Company has incurred losses from its operations amounting to P7,923,381,727 for the year ended December 31, 2022 (2021 - P6,435,154,777), which resulted to accumulated deficit and capital deficiency of P39,921,445,912 and P39,191,993,088, respectively as at December 31, 2022 (2021 - P31,998,064,185 and P31,308,856,713). These conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

However, the Company has obtained a letter from their major shareholders. Furthermore, the following business initiative are being pursued to continuously improve operations and stimulate demand towards the achievement of pre-pandemic levels: (a) commercial operations resumption with main focus to fully restore and accelerate growth in the domestic sector outside Manila hub to catch up to competitors' market share and boost its position in the international market by expanding in East Asia, particularly to Japan, China and Hong Kong; (b) increase the number of accredited partners (agents) and maximize yield by offering new products and applying customized approaches to different cargo demands; and (c) implement programs to ensure that revenue is maximized on baggage, seat selection, fees, food, insurance and other ancillary products and services which generated higher yield and take-up rate. Further, the Company endeavors to monitor and control costs by driving operational efficiencies. The effective implementation of these business initiatives is expected to bring favorable results to the Company's business operations in the long term.

We have performed sufficient and appropriate audit procedures to evaluate management's plans for such future actions to sustain its operations. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

In preparing the financial statements, 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audits of the Financial Statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 management.

- Conclude on the appropriateness of 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

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Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)
Page 4

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

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Jan Michael L. Reyes
Partner
CPA Cert. No. 104972
PTR No. 0011393, issued on January 9, 2023, Makati City
SEC A.N. (individual) as general auditors 104972-SEC, Category A;
valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements
TIN 215-692-059
BIR A.N. 08-000745-142-2022; issued on January 25, 2022; effective until January 24, 2025
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
May 19, 2023

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Financial Position
As at December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
ASSETS			
Current assets			
Cash	2	84,042,572	41,855,266
Trade and other receivables, net	3	288,892,736	149,892,446
Expendable parts, materials and supplies	4	509,930,726	327,503,329
Prepayments and other current assets	5	471,866,413	336,319,967
Due from related parties	18	1,334,214,149	1,798,389,785
Total current assets		2,688,946,596	2,653,960,793
Non-current assets			
Property and equipment, net	6	7,460,085,384	8,149,410,514
Deposits	7	895,200,625	785,599,196
Total non-current assets		8,355,286,009	8,935,009,710
Total assets		11,044,232,605	11,588,970,503
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables and other current liabilities	9	16,961,604,136	14,302,912,397
Unearned revenues	12	2,693,214,084	1,709,973,301
Loans payable	8	113,604,765	974,229,767
Provisions for claims	9	723,038,365	330,106,424
Lease liabilities, current portion	16	7,684,031,107	6,432,937,373
Provision for aircraft redelivery cost, current portion	16	39,241,325	41,245,789
Due to a related party	18	11,000,199,599	10,476,727,516
Total current liabilities		39,214,933,381	34,268,132,567
Non-current liabilities			
Lease liabilities, net of current portion	16	9,545,716,500	8,180,093,127
Loans payable	8	934,319,560	-
Provision for aircraft redelivery costs, net of current portion	16	154,335,834	109,198,848
Retirement benefit obligation	17	386,920,418	340,402,674
Total non-current liabilities		11,021,292,312	8,629,694,649
Total liabilities		50,236,225,693	42,897,827,216
Capital deficiency			
Share capital	11	595,000,000	595,000,000
Deficit		(39,921,445,912)	(31,998,064,185)
Reserve for remeasurements on retirement benefit obligation	17	134,452,824	94,207,472
Total capital deficiency		(39,191,993,088)	(31,308,856,713)
Total liabilities and capital deficiency		11,044,232,605	11,588,970,503

(The notes on pages 1 to 54 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Total Comprehensive Income
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
Revenues			
Passenger		8,126,447,559	1,691,564,362
Cargo		395,809,263	186,975,260
Other revenues		1,211,393,094	229,488,340
	12	9,733,649,916	2,108,027,962
Cost of services	13	(13,646,258,313)	(6,002,494,995)
Gross loss		(3,912,608,397)	(3,894,467,033)
Operating expenses	14	(1,766,483,508)	(954,511,036)
Other income (expenses), net			
Fair value gain on derivatives	10	-	26,942,974
Other expenses, net	15	(1,251,418,194)	(998,549,791)
Finance costs	15	(992,871,628)	(614,569,891)
Loss before income tax		(7,923,381,727)	(6,435,154,777)
Provision for income tax	19	-	-
Loss for the year		(7,923,381,727)	(6,435,154,777)
Other comprehensive income for the year			
Item that will not be reclassified subsequently to profit or loss			
Remeasurement gain on retirement benefit obligation	17	40,245,352	126,431,265
Item that can be reclassified subsequently to profit or loss			
Net fair value changes on cash flow hedge reserves	10	-	80,417,970
Total comprehensive loss for the year		(7,883,136,375)	(6,228,305,542)

(The notes on pages 1 to 54 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Changes in Equity
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Share capital (Note 11)	Deficit	Reserve for remeasurements on retirement benefit obligation (Note 17)	Net fair value changes on cash flow hedges (Note 10 and 18)	Total capital deficiency
Balances as at January 1, 2021	595,000,000	(25,562,909,408)	(32,223,793)	(80,417,970)	(25,080,551,171)
Comprehensive loss for the year					
Loss for the year	-	(6,435,154,777)	-	-	(6,435,154,777)
Other comprehensive income for the year	-	-	126,431,265	80,417,970	206,849,235
Total comprehensive loss for the year	-	(6,435,154,777)	126,431,265	80,417,970	(6,228,305,542)
Balances as at December 31, 2021	595,000,000	(31,998,064,185)	94,207,472	-	(31,308,856,713)
Comprehensive loss for the year					
Loss for the year	-	(7,923,381,727)	-	-	(7,923,381,727)
Other comprehensive income for the year	-	-	40,245,352	-	40,245,352
Total comprehensive loss for the year	-	(7,923,381,727)	40,245,352	-	(7,883,136,375)
Balances as at December 31, 2022	595,000,000	(39,921,445,912)	134,452,824	-	(39,191,993,088)

(The notes on pages 1 to 54 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Cash Flows
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
Cash flows from operating activities			
Loss before income tax		(7,923,381,727)	(6,435,154,777)
Adjustments for:			
Depreciation and amortization	13,14	2,360,450,856	2,934,310,500
Reversal of impairment loss on ROU assets	15	(963,100,000)	-
Interest expense	15	935,913,735	546,934,074
Provision for impairment of receivables	14	113,245,601	53,738,898
Unrealized foreign exchange loss	22.5	2,484,282,772	1,475,401,805
Loss on retirement of PPE	6	2,238,787	852,287
Interest income	15	(73,018)	(108,233)
Fair value gain on derivatives	10	-	(26,942,974)
Operating loss before changes in assets and liabilities		(2,990,422,994)	(1,450,968,420)
(Increase) decrease in:			
Trade and other receivables		(149,044,730)	(5,752,147)
Expendable parts, materials and supplies		(182,427,397)	44,600,128
Prepayments and other current assets		(135,546,446)	204,665,367
Due from related parties		463,452,894	(1,432,844,047)
Increase (decrease) in:			
Trade payables and other current liabilities		2,345,713,264	3,036,677,630
Provision for claims		392,931,941	-
Unearned revenue		983,240,783	(41,455,800)
Provision for aircraft redelivery costs		16,711,620	-
Retirement benefit obligation		86,763,096	28,821,423
Cash generated from operations		831,372,031	383,744,134
Interest received		73,018	108,233
Net cash from operating activities		831,445,049	383,852,367
Cash flows from investing activities			
Increase in deposits		(47,130,901)	(36,407,009)
Acquisitions of property and equipment	6	(217,372,286)	(6,631,777)
Net cash used in investing activities		(264,503,187)	(43,038,786)
Cash flow from financing activity			
Payment of lease liabilities	16	(397,409,086)	(349,229,409)
Payments of loans payable	8	(13,802,448)	-
Interest paid	8	(107,787,649)	(36,036,083)
Net cash used in financing activities		(518,999,183)	(385,265,492)
Net increase (decrease) in cash		47,942,679	(44,451,911)
Cash at the beginning of the year		41,855,266	40,393,979
Effect of changes in foreign currency exchange rates		(5,755,373)	45,913,198
Cash at the end of the year	2	84,042,572	41,855,266

(The notes on pages 1 to 54 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Notes to the Financial Statements
As at and for the years ended December 31, 2022 and 2021
(All amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - Corporate information

1.1 General information

Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company" or PAAI) was incorporated in the Philippines on March 25, 1997. The Company started commercial operations on January 1, 2003 and is presently engaged in the general business of airline, engaged in the transportation of passengers, merchandise, freight and mail.

On July 22, 2002, the Congress of the Philippines enacted Republic Act (R.A.) No. 9183 (the "Act") granting the Company a franchise to establish, operate and maintain domestic and international air transport services. The franchise shall be for a period of 25 years.

In 2017, the Civil Aeronautics Board (CAB) granted the renewal of the Company's Certificate of Public Convenience and Necessity (CPCN) to operate scheduled air transportation services valid from July 28, 2017 until July 27, 2022, and from June 20, 2017 until June 19, 2022 for domestic and international services, respectively. Beginning 2022, the Company provisionally renews its CPCN for domestic and international services due to a requirement pending for compliance under CAB Resolution No. 32 relating to capital stock of international scheduled air transport service providers (Note 11).

On December 19, 2017, AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia (the "Parent Company" or AAI) entered a Deed of Absolute Sale of Shares to acquire 51.0% ownership interest in the Company from a major shareholder. The sale was executed after securing the approvals from the Congress and President of the Republic of the Philippines.

As at December 31, 2022 and 2021, the Company is 98.8% owned by AAI. AAI is a company incorporated and domiciled in the Philippines and is 60% owned by Filipino shareholders and 40% owned by Malaysian shareholders.

The Company's registered office address is Building No. 7233 Diosdado Macapagal International Airport, Civil Aviation Complex Clark Freeport Zone Angeles City, Pampanga, Philippines, while the principal place of business is located at Level 2, Mezzanine Area, Ninoy Aquino International Airport (NAIA) Terminal 3, Pasay City, Philippines.

1.2 Status of operations

For the year ended December 31, 2022, the Company incurred a loss of P7.92 billion (2021 - P6.44 billion) which resulted to accumulated deficit and capital deficiency of P39.92 billion and P39.19 billion, respectively as at December 31, 2022 (2021 - P32.00 billion and P31.31 billion). In addition, the Company has a negative working capital (current assets less current liabilities) of P36.53 billion as at December 31, 2022 (2021 - P31.61 billion).

In 2020 and 2021, significant decline in demand for air travel was brought by strict quarantine mandates and various border restrictions worldwide. As such, the Company has implemented changes in its operations and business strategies in order to maximize revenues and manage direct and operating costs in order to meet its cash flows requirements. The Company's recovery plan aims to gradually restore pre-COVID capacities and frequencies, reduce operational costs, open new destinations and offer new products that are anchored on digital transformation.

In 2022, the Company has gradually improved its operating statistics versus 2021 in terms of operational fleet, aircraft utilization, load factor and average price that translated to higher revenues. This was influenced by the relaxation of travel policies in the Philippines and gradual opening of international borders.

The following measures are currently implemented to ensure a sustainable recovery path coming out of the pandemic:

- Fleet restoration

  The Company has capitalized on Capital A Berhad's Maintenance Repair and Overhaul (MRO) service provider in the region, Asia Digital Engineering (ADE), that has contributed to a faster fleet recovery especially in the latter part of the year. Capital A Berhad is a shareholder of AAI. In addition, the Company achieved higher-than-expected aircraft utilization which is already at par with the pre-pandemic level.

- Commercial operations resumption

  The relaxation in travel restrictions and quarantine requirements spurred a surge in travel demand. As a result, the Company continues its upward trend in key operating statistics.

  <u>Domestic</u>

  The Company's main focus was to fully restore key strategic Manila routes at pre-pandemic level since this market has the highest profitability. Strong domestic travel has been recorded in the second quarter (Q2) of 2022 driven mainly by the leisure routes peaking in the summer season. In addition, the Company was able to expand its market presence to Dumaguete and Roxas in Q2 of 2022. Meanwhile, in the third quarter (Q3) of 2022, Cebu hub was reopened and a few domestic flights were restored. Further increase in flight frequencies occurred in the fourth quarter (Q4) of 2022, particularly to leisure destinations (Caticlan, Tagbilaran, Puerto Princesa, etc.) in December 2022 which maximized revenues from higher demand for leisure travel.

  <u>International</u>

  At the start of 2022, only the Manila-Singapore and Manila-Hong Kong routes were operating to cater to the Overseas Filipino Workers (OFW) demand for the period. The reopening of Philippine borders has led to the rebounds in key markets by Q2 of 2022. With this, the Company was able to resume its operations from Manila to South Korea and Malaysia. Other key markets started to accept tourists as they slowly followed the reopening of borders in Q3 of 2022, particularly Thailand and Indonesia. In time for the holiday season in Q4 of 2022, the Company was able to resume flights to leisure destinations to bring tourists to Taiwan and Japan for the winter peak season.

- Charter flight business and other revenue streams

  In the first quarter (Q1) of 2022, the Company was able to sustain the momentum, with charter flights flown to China catering the Philippine Offshore Gaming Operators (POGO) workers and to India for the OFW repatriation flights. However, starting April 2022, scheduled international passenger flights resumed operations resulting in a decline in demand for charter business. Overall, charter flight operations contributed P260.25 million or accounting for 2.67% of the total revenue for the year ended December 31, 2022 (2021 - P733.04; 34.77%).

  Meanwhile, cargo revenue amounted to P395.81 million for the year ended December 31, 2022 (2021 - P186.98 million), which already exceeded the pre-pandemic level (year ended December 31, 2019) of P381.11 million. The main focus on cargo was to increase the number of accredited partners (agents) and maximize yield by offering new products and applying customized approaches to different cargo demands.

Various programs were implemented to ensure that revenue is maximized on baggage, seat selection, fees, food, insurance and other ancillary products and services which generated higher yield and take-up rate.

- Working capital management

  The Company, with the assistance of Capital A Berhad, managed to restructure several aircraft operating leases with lessors (Note 16). Payments are to be handled on a gradual, progressive basis as the Company is moving towards full restoration of capacity through resumption of its operations.

- Funding and financial support

  Certain shareholders of AAI continue to provide the necessary financial support to enable the Company to meet its financial obligations when they fall due and carry out its business operations. Further, certain shareholders continue to affirm that it will delay calling on the net liabilities due from the Company at least for the next twelve (12) months from December 31, 2022; the forbearance will however change once the Company's financial position and cash flows has improved earlier than the lapse of the undertaking (Notes 18 and 22).

  In March 2022, the Company was able to restructure its current BDO loan to extend its maturity until June 2025 with quarterly principal repayments and monthly interest. Outstanding loan of the Company restructured amounted to $19.09 million (approximately P1.05 billion) (Note 8).

As the Company recovers from the adverse impacts of COVID-19 into the air travel industry, the Company continues to fully adopt AirAsia brand's business model, including the planned changes in strategies and as well as the introduction of new products and services of the brand. This is expected to drive loads through the lowest fare strategy, wider destination reaches and attracting more people to fly from and to the Philippines.

The main focus is to accelerate growth in the domestic sector outside Manila hub to catch up to competitors' market share and boost its position in the international market by expanding in East Asia, particularly to Japan, China and Hong Kong. Full recovery on the domestic network in Manila hub will be achieved in Q1 of 2023, focusing on existing and highly profitable markets. New routes outside Manila targeting Caticlan will be launched to grow domestic presence. International expansion into East Asia to leverage on the pent up demand, targeting destinations where markets are familiar with the AirAsia brand. Meanwhile, the China market will be a key factor in the international recovery, with the possible border reopening by Q2 of 2023 as restrictions ease and later expansion in the second half (2H) of 2023 with new routes from Clark and Cebu. Both Kalibo and Clark hubs will resume their operations by 2H of 2023.

The effective implementation of the new business model is expected to bring favorable results to the Company's business operations in the long term.

Based on the foregoing, the Company's financial statements were prepared on a going concern basis.

1.3 Approval of the financial statements

These financial statements have been approved and authorized for issuance by the Company's Board of Directors (BOD) on May 19, 2023.

Note 2 - Cash

Cash as at December 31 consists of:

	2022	2021
Cash on hand	2,042,656	1,716,000
Cash in banks	81,999,916	40,139,266
	84,042,572	41,855,266

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks for the year ended December 31, 2022 amounted to P73,018 (2021 - P108,233) (Note 15).

Note 3 - Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

	Note	2022	2021
Trade receivables			
Third parties		1,600,397,507	1,322,129,410
Related parties	18	78,004,960	93,472,975
		1,678,402,467	1,415,602,385
Less: Allowance for impairment loss		1,406,552,846	1,293,307,245
Trade receivables, net		271,849,621	122,295,140
Other receivables		17,043,115	27,597,306
		288,892,736	149,892,446

Trade receivables are unsecured and non-interest bearing with credit terms ranging from 30 to 60 days.

Other receivables include advances to employees which are subject to liquidation upon completion of the business transaction.

Movements in allowance for impairment loss on trade receivables with third parties for the years ended December 31 are as follows:

	Note	2022	2021
Beginning of the year		1,293,307,245	1,239,568,347
Provision for impairment loss	14	113,245,601	53,738,898
End of the year		1,406,552,846	1,293,307,245

Critical accounting estimates and assumptions: Allowance for impairment loss on trade receivables

The Company uses a provision matrix to calculate expected credit loss (ECL) for trade receivables that are not credit impaired. The provision rates are based on days past due for groupings of various customer types that have similar loss patterns. The provision matrix is initially based on the Company's historically observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (e.g., PHP/USD average foreign exchange rate) is expected to increase over the next year which can lead to an increased number of defaults due to the decrease in PHP's purchasing power, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecasted economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Note 4 - Expendable parts, materials and supplies

Expendable parts, materials, and supplies as at December 31 consist of:

	2022	2021
At cost		
Expendable parts	504,682,706	322,267,102
Inflight inventories	5,248,020	5,236,227
	509,930,726	327,503,329

For the year ended December 31, 2022, the cost of inventories charged to profit or loss as part of repairs and maintenance expense amounted to P192.72 million (2021 - P56.59 million) (Note 13).

Critical accounting judgment: Determination of net realizable value of expendable parts, materials and supplies

The Company's estimates of the net realizable value of expendable parts, materials and supplies are based on the most reliable evidence (e.g., damage, physical deterioration, technological obsolescence, changes in commodity prices), available at the time the estimates are made of the amount that these assets are expected to be realized.

The net realizable value of expendable parts, materials and supplies is reviewed on a monthly basis to reflect the reasonable valuation of these assets. Expendable parts, materials and supplies identified to be obsolete and unusable is written-off and charged as expense for the period. The carrying value of the expendable parts, materials and supplies at reporting date and the amount and timing of recorded expenses for any period could differ based on the actual experience and changes in judgments or estimates made.

Management has assessed that the net realizable value of inventories is higher than their cost, hence the Company did not recognize any provision for inventory obsolescence for the years ended December 31, 2022 and 2021.

Note 5 - Prepayments and other current assets

Prepayments and other current assets as at December 31 consist of:

	2022	2021
Prepaid maintenance and fuel	365,605,279	251,316,677
Prepaid taxes	20,030,625	7,308,995
Prepaid insurance	6,450,044	1,657,905
Others	79,780,465	76,036,390
	471,866,413	336,319,967

Prepaid maintenance and fuel and prepaid insurance will be recognized as expense either with the passage of time or through use or consumption.

Input VAT represents taxes imposed on the Company for the acquisition of goods and services that are expected to be utilized and applied against output VAT. These are stated at face value and are utilized when there is a legally enforceable right to offset the recognized amounts against output VAT obligations and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Prepaid taxes mainly include overpayments of income taxes and creditable withholding taxes withheld by third parties arising from sale of services which are applied against future income tax payable.

Others include advanced payment for reservation fee for office spaces within Ninoy Aquino International Airport (NAIA) Terminal 3, advanced payments for 12-month rent and airport charges and regulatory fees.

Note 6 - Property and equipment, net

Details of property and equipment, net are as follows:

	Leasehold improvements	Motor vehicles	Office furniture and equipment	Aircraft support machinery and equipment	Right-of-use (ROU) assets (Note 16)	Total
At January 1, 2021						
Cost	109,530,276	87,684,726	108,309,483	868,619,542	18,106,115,855	19,280,259,882
Accumulated depreciation, amortization and impairment	(40,752,729)	(65,259,850)	(66,600,726)	(372,012,517)	(8,215,864,857)	(8,760,490,679)
Net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
For the year ended December 31, 2021						
Opening net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
Additions	348,214	-	340,357	3,202,086	584,819,943	588,710,600
Depreciation and amortization	(25,745,973)	(12,527,176)	(17,300,793)	(140,956,978)	(2,737,779,580)	(2,934,310,500)
Retirement/disposal						
Cost	-	(22,515,137)	-	(1,860,943)	(136,204,127)	(160,580,207)
Accumulated depreciation and amortization	-	21,373,116	-	1,593,455	112,854,847	135,821,418
Closing net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
At December 31, 2021						
Cost	109,878,490	65,169,589	108,649,840	869,960,685	18,554,731,671	19,708,390,275
Accumulated depreciation, amortization and impairment	(66,498,702)	(56,413,910)	(83,901,519)	(511,376,040)	(10,840,789,590)	(11,558,979,761)
Net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
For the year ended December 31, 2022						
Opening net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
Additions	26,412,942	-	4,071,277	90,231,163	829,294,580	950,009,962
Lease modification	-	-			(239,745,449)	(239,745,449)
Depreciation and amortization	(43,419,934)	(7,326,490)	(13,179,545)	(111,824,977)	(2,184,699,910)	(2,360,450,856)
Retirement/disposal						
Cost	(2,212,848)	-	-	(25,939)	-	(2,238,787)
Accumulated depreciation and amortization		-	-		-	
Reversal of impairment	-	-	-		963,100,000	963,100,000
Closing net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384
At December 31, 2022						
Cost	134,078,584	65,169,589	112,721,117	960,165,909	19,144,280,802	20,416,416,001
Accumulated depreciation, amortization and impairment	(109,918,636)	(63,740,400)	(97,081,064)	(623,201,017)	(12,062,389,500)	(12,956,330,617)
Net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384

Acquisitions of property and equipment as shown in the statements of cash flows for the years ended December 31 were determined as follows:

	Note	2022	2021
Beginning unpaid portion of property and equipment		121,262,445	124,003,565
Acquisitions of property and equipment, excluding ROU assets		120,715,382	3,890,657
Unpaid portion of property and equipment	9	(24,605,541)	(121,262,445)
Paid acquisitions of property and equipment per statements of cash flows		217,372,286	6,631,777

Depreciation and amortization charged to profit or loss for the years ended December 31 are as follows:

	Notes	2022	2021
Cost of services	13	2,296,524,887	2,855,387,278
Operating expenses	14	63,925,969	78,923,222
		2,360,450,856	2,934,310,500

(6)

ROU assets as at December 31 consist of:

	Aircraft	Engine	Office	Total
At January 1, 2021				
Cost	17,904,085,179	65,826,549	136,204,127	18,106,115,855
Accumulated depreciation and impairment	(8,062,883,686)	(63,475,603)	(89,505,568)	(8,215,864,857)
Net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
For the year ended December 31, 2021				
Opening net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
Additions	584,819,943	-	-	584,819,943
Depreciation	(2,712,079,355)	(2,350,946)	(23,349,279)	(2,737,779,580)
Retirement/disposal				
Cost	-	-	(136,204,127)	(136,204,127)
Accumulated depreciation	-	-	112,854,847	112,854,847
Closing net carrying value	7,713,942,081	-	-	7,713,942,081
At December 31, 2021				
Cost	18,488,905,122	65,826,549	-	18,554,731,671
Accumulated depreciation and impairment	(10,774,963,041)	(65,826,549)	-	(10,840,789,590)
Net carrying value	7,713,942,081	-	-	7,713,942,081
For the year ended December 31, 2022				
Opening net carrying value	7,713,942,081	-	-	7,713,942,081
Additions	829,294,580	-	-	829,294,580
Modifications	(239,745,449)	-	-	(239,745,449)
Depreciation	(2,184,699,910)	-	-	(2,184,699,910)
Reversal of impairment	963,100,000	-	-	963,100,000
Closing net carrying value	7,081,891,302	-	-	7,081,891,302
At December 31, 2022				
Cost	19,078,454,253	65,826,549	-	19,144,280,802
Accumulated depreciation and impairment	(11,996,562,951)	(65,826,549)	-	(12,062,389,500)
Net carrying value	7,081,891,302	-	-	7,081,891,302

Collateral equipment

A certain engine under aircraft support machinery and equipment was used as collateral to secure a loan renegotiation obtained by its Parent Company in 2020. The related loan was settled by the Parent Company in 2021.

In 2022, the same engine was used by the Company as collateral to restructure its loans payable (Note 8). As at December 31, 2022, the net carrying amount of the engine amounted to P55,741,290 (2021 - 102,533,290).

Impairment of ROU assets

As discussed in Note 1, the Company is continuously impacted by the adverse effects of the COVID-19 pandemic, as such, management has regularly undertaken impairment assessment review.

In 2022 and 2021 management has undertaken an impairment review of the Company's cash generating units (CGUs), which primarily consist of Aircraft ROU assets, in accordance with PAS 36, Impairment of Assets. In determining the provision, the recoverable amount of the Company's ROU assets was determined based on value-in-use (VIU) calculations. Cash flow projections used in the value-in-use calculations were based on forecasted financials results approved by management covering the remaining lease terms of the entire aircraft fleet. The financial results were also in consideration of the current COVID-19 recovery plans as well as the domestic and international travel policies.

Using the detailed projections of the Company's expected results from its current fleet for the remaining lease terms, the Company calculated a recoverable amount as at December 31, 2022 amounting to P17.37 billion (2021 - P9.36 billion). Consequently, the Company recognized reversal of provision for impairment of its aircraft ROU assets for the year ended December 31, 2022 amounting to P963.10 million (2021 - nil).

The assumptions used as at December 31 are as follows:

	2022	2021
Discount rate	16%	9%
Terminal growth rate	0%	0%

Discount rate used is based on weighted average cost of capital of comparable companies.

Critical accounting estimates and assumptions: Impairment of ROU assets

The Company assesses at each reporting date whether there is an indication that ROU assets may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. The recoverable amount of right-of-use assets is the greater of the asset's fair value less costs to sell and value-in-use. Determination of impairment of right-of-use assets requires an estimation of the value-in-use of the cash-generating unit (CGU) to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Company uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield, aircraft utilization and fuel costs, among others.

Changes in these judgments and assessments could have a significant effect on the carrying value of ROU assets and the amount and timing of recorded provision for any period.

For the year ended December 31, 2022, the Company recognized reversal of ROU impairment amounting to P963.10 million based on the results of management's assessment. Resulting value-in-use based on management's assessment, exceeded the carrying value of the ROU assets. The increase in the value was supported by the Company's efforts to manage lessors and extend lease terms. Moreover, the market is recovering, thereby increasing further the value-in-use of the ROU assets.

For the year ended December 31, 2021, while the resulting value-in-use exceeds the carrying value of the ROU assets, there are no reversal of impairment charges recognized primarily because the changes in the values were determined by management to be attributable to sensitivity of assumptions and impairment indicators continue to exist.

While it is believed that the Company's assumptions are reasonable and appropriate, significant changes in assumptions may materially affect the Company's impairment provision and ROU assets. The sensitivity of the resulting impairment provision is mainly driven by any changes in pre-tax discount rate applied, while holding all assumptions constant.

The sensitivity of the value-in-use to changes in the pre-tax discount rate applied in the cash flow projections as at December 31 is as follows:

	Impact on value-in-use	
Change in pre-tax discount rate	Increase in assumption	Decrease in assumption
2022		
+/-1%	Decrease of P608.29 million	Increase of P645.59 million
2021		
+/-1%	Decrease of P381.46 million	Increase of P406.30 million

(8)

When calculating the sensitivity of the impairment provision, the same method (value-in-use) has been applied as when calculating the (reversal of) impairment provision recognized in profit or loss.

Critical accounting judgment: Recoverability of property and equipment

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

As of December 31, 2022 and 2021, management believes that the carrying amount of the Company's property and equipment are recoverable.

Note 7 - Deposits

Deposits as at December 31 consist of:

	Note	2022	2021
Aircraft and engine lease deposit	16	690,033,369	653,375,961
Refundable deposits		169,775,539	88,781,983
Spares and maintenance deposit		13,030,169	24,986,595
Hangar and office rental	16	22,361,548	18,454,657
		895,200,625	785,599,196

Refundable deposits mainly pertain to bonds paid to different Philippine airport authorities for airport charges. These amounts will be refunded at the end of the related contracts.

Spares and maintenance deposit mainly relate to deposits for future fixed asset acquisitions.

Note 8 - Loans payable

On September 8, 2017, the Company availed of a loan from BDO Unibank, Inc. (BDO) to be used for working capital requirements amounting to $35.0 million (P1.78 billion). Fifty percent (50%) of the loan is payable in 11 equal quarterly installments starting December 2017 and the remaining fifty percent (50%) is payable in lump sum at the end of the contract term on September 8, 2020. The loan is subject to 3-month London Interbank Offered Rate (LIBOR) plus margin of 2.5%.

The loan with BDO provides for restrictions with respect to, among others, making distribution on its share capital; maintenance of financial ratios; making any material change in the character of its business or engaging in any business operation or activity other than those for which it is presently authorized; decreasing the current ownership interest of AAI; incurring any secured indebtedness; and, extending loans, advances to any corporation, directors, officers and stockholders other than advances in the ordinary course of business.

This BDO credit facility is secured by corporate guarantee of Capital A Berhad and the continuing suretyship of AAI (Note 18).

In 2018, the Company did not meet the required financial ratios. Thus, the portion of loans originally payable in 2020 totaling $20.68 million (P1.09 billion) was presented as current liabilities since BDO has the right to call the loans as at December 31, 2018, and anytime thereafter. The Company was not declared in default by BDO. In 2019, the whole amount of loans payable, being originally due in September 2020, are classified as current.

In 2020, the Company was able to renegotiate the outstanding loan amount extending the maturity date to November 19, 2021. The renegotiated loan is subject to 3-month LIBOR plus margin of 4% per annum. The renegotiated loan is short-term and is not subject to any loan covenant. In November 2021, the Company was able to further renegotiate the maturity of its BDO loan extending the maturity date to June 30, 2022.

In March 2022, the Company was able to roll-over the same loan instrument with the Company's owned-engine as its additional collateral (Note 6). The renegotiated loan is subject to 3-month Term Secured Overnight Financing Rate (SOFR) plus margin of 4% per annum. The loan will mature June 30, 2025 with quarterly principal repayments and monthly interest payments beginning on September 2022.

Movements of loans payable for the years ended December 31 are as follows:

	2022	2021
Balance at the beginning of year	974,229,767	916,994,530
Settlements	(13,802,448)	-
Foreign exchange effects	87,497,006	57,235,237
Balance at the end of year	1,047,924,325	974,229,767

The current and non-current portion of the loans payable as at December 31 are as follows:

	2022	2021
Current	113,604,765	974,229,767
Non-current	934,319,560	-
	1,047,924,325	974,229,767

Movements of accrued interest on loans payable for the years ended December 31 are as follows:

	2022	2021
Balance at the beginning of year	1,116,472	780,581
Settlements	(60,125,979)	(36,036,083)
Interest expense	59,009,507	37,152,555
Foreign exchange effects	-	(780,581)
Balance at the end of year	-	1,116,472

Accrued interest on loans payable as at December 31, 2021 is presented as part of trade payables and other current liabilities (Note 9).

Note 9 - Trade payables and other current liabilities; Provisions for claims

Trade and other current liabilities

Trade payables and other current liabilities at December 31 consist of:

	Notes	2022	2021
Trade payables			
Related parties	18	6,447,378,373	5,973,681,088
Third parties		6,479,529,052	5,661,051,404
		12,926,907,425	11,634,732,492
Accrued expenses			
Repairs and maintenance		1,168,209,089	790,822,056
Landing, takeoff and parking		864,249,816	180,898,715
Airport ground handling		39,728,981	12,172,366
Marketing Costs		26,398,513	-
Accrued interest on lease deferrals	16	18,433,222	37,563,189
Salaries and employee benefits		6,004,414	147,548,115
Accrued interest on loans payable	8	-	1,116,472
Others		8,589,371	24,416,221
		2,131,613,406	1,194,537,134
Refunds		747,498,103	773,403,535
Deposits from travel agents		197,241,418	228,045,825
Payable to government agencies		841,217,673	300,059,685
Output VAT payable		79,407,205	39,215,051
Unpaid capital expenditures		24,605,541	121,262,445
Other claims		13,113,365	11,656,230
		16,961,604,136	14,302,912,397

Trade payables are unsecured, unguaranteed and non-interest bearing. Payable to third parties have credit terms ranging from 30 to 60 days while payable to related parties are due and demandable.

Deposits from travel agents pertain to cash bond of travel agents. This serves as the travel agents' credit limit and represents the maximum value of tickets that the travel agents are allowed to sell.

Payable to government agencies pertains mostly to withholding taxes which are non-interest bearing and are normally settled the following month.

Refunds mainly consist of scheduled flights that were eventually cancelled by the Company, following some circumstances outside the control of the passenger. Passengers affected by eventual cancellations are provided an option to rebook or refund flight booking payments. Refunds account are those cancelled flights where passengers opted to refund cash via their choice of payment platform. Rebooked flights are recorded as part of "Unearned revenues" in the statement of financial position (Note 23.16).

Provisions for claims

In the normal course of business, the Company has provisions, including those that may arise from suits and claims that are presently being contested. The Company has several pending cases which are individually not material that are likely to continue for some time. In the opinion of management, the ultimate disposition of these amounts will not have any significant effect on the financial position, results of operations and cash flows of the Company as at and for the years ended December 31, 2022 and 2021.

The movements in provisions for claims for the years ended December 31 are as follows:

	Note	2022	2021
Beginning of the year		330,106,424	330,106,424
Provision during the year	15	392,931,941	-
End of the year		723,038,365	330,106,424

The disclosure of additional details beyond the present disclosures may seriously prejudice the Company's position. Thus, as allowed by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, only a general description is provided.

Critical accounting estimates and assumptions: Provisions for claims

In the normal course of business, the Company is involved in various legal actions, claims and other contingencies incidental to its ordinary course of business. Provision is based on management's assessment and judgment, in consultation with counsels and advisors, of the likelihood that the settlement of these provisions will be realized considering possible outcomes under various circumstances. While it is believed that the Company's judgment and assessment are reasonable, actual results could differ from those judgment and assessment.

Accordingly, the recorded provision at the end of each reporting period and the amount and timing of recorded expense for any period could be materially affected by actual experience and changes in those judgment and assessment. A change in the estimated amount to be paid in settlement of these provisions would impact the Company's recorded expenses and current liabilities.

Note 10 - Derivative financial instruments

In 2020 and 2019, Capital A Berhad entered into derivative contracts with third parties to hedge the jet fuel requirements of the AirAsia network. Subsequently in the same years, Capital A Berhad entered fuel derivative contracts with the Company for its related expected fuel consumption (Note 18). The Company's fuel derivatives consist primarily of fixed commodity swaps and options which are based on Brent crude oil price and crack between Brent oil price and jet fuel prices.

The Company designated for hedge accounting the derivative contracts entered for the year ended December 31, 2021.

The net changes in the fair value of all derivative instruments for the year ended December 31, 2021 are as follows:

	Note	
Balance at beginning of the year		(107,360,944)
Net changes in fair value during the year		67,922,422
Fair value of settled derivatives	18	39,438,522
Balance at end of year		-

For the year ended December 31, 2021, no ineffectiveness was recognized in the statement of total comprehensive income.

A net gain of P26.94 million for the year ended December 31, 2021 resulting from the movement in fair value of derivative instruments not designated for hedge accounting is recognized as fair value change in derivatives in the statement of total comprehensive income.

For the year ended December 31, 2021, following the maturity of the hedge contract in April 2021, fair value loss on settled fuel derivative contracts amounting to P39.44 million was charged to profit or loss as part of fuel costs (Note 13).

In 2020, the Company, through Capital A Berhad, restructured Brent swaps originally maturing in April to June 2020. Upon renegotiation, the instruments had various maturity dates from December 2020 to April 2021. Upon maturity date in April 2021, the Company has not further participated in the Capital A Berhad renegotiated hedges.

Following are the details of the restructured swaps:

	Original	Restructured
Notional quantity	35,107 barrels	37,448 barrels
Notional amount	$2,071,310	$2,412,260
Average hedged rate	$59.00	$64.42

Critical accounting estimates and assumptions: Fair value of derivative instruments

The Company's derivative assets and liabilities are carried at fair value, the determination of which requires the use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., forward fuel prices and discount rates), the amount of changes in fair value would differ due to usage of different valuation methodology. Any change in fair value of these derivative instruments would affect directly the statements of comprehensive income.

Note 11 - Equity

The Company's share capital as at December 31, 2022 and 2021 consists of:

	Shares	Amount
Common shares at P1 par value per share		
Authorized	576,078,431	576,078,431
Issued and outstanding	171,078,431	171,078,431
Preferred shares at P1 par value per share		
Authorized, issued and outstanding	423,921,569	423,921,569

The Company's preferred shares are non-voting, participating, convertible at the option of the holder and redeemable at the option of the Company at the issue price or book value thereof, whichever is higher. Dividends are cumulative from the date of subscription thereof and is intended to be payable upon formal declaration by the BOD, and at which time, the related obligation on dividend is recognized in the accounts. As at December 31, 2022 and 2021, the BOD has yet to determine and approve the cumulative preferred dividend rate.

Under CAB Resolution No. 32, international scheduled air transport service providers are required to maintain a capital of not less than P800 million for the renewal of its CPCN. Existing grantees of CPCN are required to comply with the requirement within a period of one (1) year from the effectivity of the resolution in 2018 or upon renewal of its CPCN, whichever comes first. As at December 31, 2022 and 2021, total capital stock of the Company amounted to P595 million.

On September 13, 2019, CAB granted the Company's proposed changes in its authorized and outstanding capital stock, endorsement of the proposed transactions to the SEC and the subsequent confirmation of compliance with CAB Resolution No. 32 upon approval by the SEC of the proposed transactions.

On November 19, 2019, the Company's BOD and shareholders approved the conversion of the Company's outstanding liabilities to AAI amounting to P11.97 billion as full consideration for the issuance by the Company of 205 million common shares. This transaction would result to increase AAI's ownership in the Company to 800 million common shares at P1.00 par value per share and would enable the Company to conform to the capitalization requirement of CAB.

On January 31, 2020, the BOD and shareholders of Asiawide Airways Inc. (AWAI) approved the assignment of the Company's payable balance amounting to P753 million to AAI as the new creditor. In consideration for such assignment, AAI extinguished the debt of AWAI to AAI for the same amount.

On June 18, 2020, the Company filed its application to the SEC for the debt to equity restructuring.

On April 21, 2021, the BOD and shareholders of AWAI and AAI approved the revocation of the following:

(i) the assignment by AWAI of its net receivable from PAAI amounting to P753 million (AWAI Assigned Receivable) to AAI (AAI Additional Receivables);
(ii) the extinguishment of the AWAI's Debt to AAI to the extent of an amount equivalent to the AWAI Assigned Receivables; and
(iii) the assignment of the AAI Additional Receivables to be applied towards the subscription payment for AAI's subscriptions to shares of PAAI out of the PAAI Capital Increase.

It was further approved by the AAI's BOD and shareholders that the subscription price for the 205,000,000 shares will be amended from P11.97 billion to P11.22 billion.

As at reporting date, the Company has yet to update its filings with the Philippine SEC to reflect this change. Meanwhile, the initial application is still pending review and approval by the SEC.

Note 12 - Revenues

Below is the disaggregation of the Company's revenues for the years ended December 31:

	2022	2021
Over time		
Passenger	8,126,447,559	1,691,564,362
Cargo	395,809,263	186,975,260
Other revenues		
Baggage fees	976,601,949	177,982,800
Assigned fees	69,970,588	9,537,816
Rebooking, refunds and cancellation fees	33,017,647	1,174,928
Connection fees	9,033,963	83,515
Others	55,880,020	26,569,757
	9,666,760,989	2,093,888,438
Point in time		
Inflight meals and merchandise	66,888,927	14,139,524
	9,733,649,916	2,108,027,962

Others pertain mainly to unlimited flight pass, expired credit shell, aircraft advertisements, rental income on lease of a portion of the warehouse and other add-on fees, including insurance, airport service charges and handling fees.

Contract liabilities

Contract liabilities, recorded as unearned revenues in the statement of financial position, amounting to P2,693,214,084 as at December 31, 2022 (2021 - P1,709,973,301) represent collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

The increase in unearned revenues as at December 31, 2022 is consistent with the commercial operations resumptions as influenced by the relaxation of travel policies in the Philippines and gradual opening of international borders.

The following table shows the rollforward analysis of contract liabilities for the years ended December 31:

	2022	2021
At January 1	1,709,973,301	1,751,429,101
Additions during the year	11,392,412,054	1,731,553,634
Recognized as revenue	(10,409,171,271)	(1,773,009,434)
At December 31	2,693,214,084	1,709,973,301

Note 13 - Cost of services

Cost of services for the years ended December 31 are as follows:

	Notes	2022	2021
Fuel cost	10	5,911,884,120	863,171,114
Depreciation and amortization	6, 16	2,296,524,887	2,855,387,278
Repairs and maintenance	4	1,987,148,714	833,059,452
Salaries and employee benefits		1,179,665,483	692,757,037
Aircraft rental	16	1,097,054,920	371,428,318
Airport ground handling		340,518,776	80,309,914
Landing, take-off and parking		522,246,489	145,441,983
Bus rental	16	31,658,121	27,349,948
Custom duties		8,808,602	1,063,146
Others		270,748,201	132,526,805
		13,646,258,313	6,002,494,995

Landing, take-off and parking consists of amounts paid to airport authorities for landing and taking off at each particular airport. It also includes fees for parking at the terminal apron and other designated parking spaces.

Airport ground handling represents charges for services such as ground coordination, customs clearance application, passenger baggage handling, refueling, shuttle and other ground services.

Others consist mainly of aviation insurance, navigational fees charged for the establishment, operation and maintenance of air navigation system and facilities, and catering charges for in-flight crews.

Note 14 - Operating expenses

Operating expenses for the years ended December 31 are as follows:

	Notes	2022	2021
Marketing expenses			
Commission expenses		191,126,283	23,111,263
Promotion and advertising		118,733,063	20,385,605
		309,859,346	43,496,868
General and administrative expenses			
Brand license fee	18, 20	341,115,310	6,546,397
Utilities		250,012,816	237,385,178
Salaries and employee benefits		166,084,553	160,304,072
Outside services	18	163,661,709	200,333,123
Provision for impairment of receivables	3	113,245,601	53,738,898
Repairs and maintenance		75,814,024	73,247,154
Retirement benefit expense	17	74,451,598	17,240,299
Rental of office and equipment	16	65,162,058	37,809,281
Depreciation and amortization	6, 16	63,925,969	78,923,222
Insurance		62,270,465	23,230,558
Training and accommodation		17,064,189	5,839,294
Taxes and licenses		12,164,595	5,167,791
Bank charges		9,104,635	1,609,542
Others		42,546,640	9,639,359
		1,456,624,162	911,014,168
		1,766,483,508	954,511,036

Note 15 - Finance costs and other expenses, net

Finance costs for the years ended December 31 are as follows:

	Notes	2022	2021
Interest expenses on:			
Lease liabilities	16	835,908,831	463,763,955
Loan payable	8	59,009,507	37,152,555
Lease deferrals	16	28,531,703	37,563,189
Retirement benefit obligation	17	16,986,093	13,869,824
Provision for aircraft redelivery	16	12,463,694	8,454,375
Others		39,971,800	53,765,993
		992,871,628	614,569,891

Others include late payment fees charged by certain airport authorities.

Other expenses, net for the years ended December 31 consists of:

	Notes	2022	2021
Foreign exchange loss, net	22	2,459,207,064	1,456,771,240
Provision for claims	9	392,931,941	-
Reversal of impairment of right-of-use assets	6	(963,100,000)	-
Reversal of accruals		(623,468,810)	(286,070,472)
Interest income from bank deposits	2	(73,018)	(108,233)
Gain on maintenance reserve fund (MRF) claims		-	(127,753,031)
Others		(14,078,983)	(44,289,713)
		1,251,418,194	998,549,791

(16)

Gain on MRF claims pertain to a cash reimbursement received from engine lessors related to the maintenance costs of engines incurred and paid by the Company in 2019. Final reconciliation and settlement was made by the lessor in October 2021.

In 2022 and 2021, management continuously reviewed the composition of its outstanding accruals and wrote off certain long outstanding balances which management assessed as no longer representing valid claims against the Company.

Others include collection from scrap sales, sublease of airport terminal space and reversal of deposits from inactive agents.

Note 16 - Leases (the Company as the lessee)

The Company's fleet as at December 31 consists of:

	Note	2022	2021
Airbus A320-200			
Third party lessors		14	17
Related party lessor	18	12	7
		26	24

Passenger aircraft

The Company is a lessee to various non-cancellable leases covering its passenger aircrafts, from both third party and related party principal lessors. The leases have terms ranging from twelve (12) months to ten (10) years with renewal options. The Company's existing fleet are with lease terms as provided below:

December 31, 2022

	Original lease term (including renewal options)		Restructured in 2022	New lease term (after lease restructuring)	
No. of aircrafts	From	To		From	To
1	2013	2022	No	2013	2022
1	2013	2022	Yes	2022	2025
1	2021	2029	No	2021	2029
1	2014	2021	No	2014	2021
1	2014	2025	No	2014	2025
1	2014	2026	No	2014	2026
2	2016	2022	No	2016	2022
1	2016	2023	Yes	2021	2029
1	2017	2021	No	2017	2021
1	2017	2022	No	2017	2022
1	2017	2023	Yes	2022	2036
1	2021	2031	No	2021	2031
1	2017	2025	No	2017	2025
2	2021	2031	No	2021	2031
2	2018	2025	No	2018	2025
1	2021	2031	No	2021	2031
1	2018	2026	No	2018	2026
1	2018	2030	No	2018	2030
1	2021	2027	No	2021	2027
1	2019	2025	Yes	2021	2031
1	2019	2028	Yes	2022	2028
2	2022	2026	No	2022	2026
26					

December 31, 2021

	Original lease term (including renewal options)		Restructured in 2021	New lease term (after lease restructuring)	
No. of aircrafts	From	To		From	To
2	2013	2022	No	2013	2022
1	2013	2023	Yes	2021	2029
1	2014	2021	No	2014	2021
1	2014	2025	No	2014	2025
1	2014	2026	No	2014	2026
2	2016	2022	No	2016	2022
1	2016	2023	No	2016	2023
1	2017	2021	No	2017	2021
1	2017	2022	No	2017	2022
1	2017	2023	No	2017	2023
1	2017	2025	Yes	2021	2031
1	2017	2025	No	2017	2025
2	2018	2025	Yes	2021	2031
2	2018	2025	No	2018	2025
1	2018	2026	Yes	2021	2031
1	2018	2026	No	2018	2026
1	2018	2030	No	2018	2030
1	2019	2022	Yes	2021	2027
1	2019	2025	No	2019	2025
1	2019	2028	No	2019	2028
24					

Lease terms are negotiated either on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Lease restructuring and modification

On various dates in 2022 and 2021, through and with the assistance of Capital A Berhad, managed to seek deferrals for payment and restructuring of several aircraft operating leases with lessors. In 2022, 5 (2021 - 6) aircraft leases were restructured and among the provisions of the new lease terms includes reduced rental rates and extended lease terms. The table presented in the foregoing provides information on the new lease terms following the restructuring.

Lease payment deferrals

On November 19, 2020, the Company's BOD resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes, deferral of rental payments due in various dates in 2020 and 2021 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in December 2020.

On February 2, 2021, the Company's BOD further resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes, deferral of rental payments due in 2022 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5.75% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in 2021.

There were no lease side letters approved and entered into for the year ended December 31, 2022.

For the aircrafts that were granted lease payment deferrals, the provisions in the lease side letter undertaking did not constitute a lease concession and hence, no corresponding gain or loss was recognized in profit of loss. The rental payments not stated in the lease side letter will continue to be due for payment in accordance with the original terms of the lease agreements.

Movements of the Company's lease liabilities as at and for the years ended December 31 are as follows:

	Note	2022	2021
Balance at beginning of the year		14,613,030,500	12,316,353,273
Additions		829,294,580	-
Interest accretion	15	835,908,831	463,763,955
Modifications		(239,745,449)	1,699,176,651
Lease payments		(397,409,086)	(349,229,409)
Pre-termination of office lease		-	(23,906,502)
Foreign exchange difference		1,588,668,231	506,872,532
Balance at end of the year		17,229,747,607	14,613,030,500

Total amount of rent payments due that was deferred as at December 31, 2022 amounted to P1,048,172,445 (2021 - P1,400,839,060). Movements of the Company's accrued interest on lease deferrals as at and for the years ended December 31 are as follows:

	Notes	2022	2021
Balance at beginning of the year		37,563,189	20,706,775
Interest accretion	15	28,531,703	37,563,189
Payments		(47,661,670)	(20,706,775)
Balance at end of the year	9	18,433,222	37,563,189

Classification of lease liabilities in the statements of financial position as at December 31 are as follows:

	2022	2021
Current	7,684,031,107	6,432,937,373
Non-current	9,545,716,500	8,180,093,127
	17,229,747,607	14,613,030,500

The amount of right-of-use assets recognized in the statement of financial position as at December 31, 2022 amounted to P7.08 billion (2021 - P7.71 billion) (Note 6).

The following are the amounts recognized in statement of total comprehensive income for the years ended December 31:

	Notes	2022	2021
Depreciation of right-of-use assets	6	2,184,699,910	2,737,779,580
Reversal of impairment of right-of-use assets	6	(963,100,000)	-
Interest accretion on lease liabilities	15	835,908,831	463,763,955
Expenses related to short-term leases and low-value assets	13,14	1,193,875,099	436,587,547
Foreign exchange difference		1,588,668,231	506,872,532
		4,840,052,071	4,145,003,614

Short term aircraft and engine leases

In 2022 and 2021, certain aircraft leases and the engine lease expired, pending renewal of its lease agreement. The lease rentals for the periods not covered by the lease term in the renewed and executed contract amounted to P1,097,054,920 (2021 - P371,428,318) were charged to profit or loss as part of cost of services.

Hangar and office space

The Company also has existing non-cancellable agreements for its hangar and office space for a period of three (3) years until December 31, 2021. In June 2021, the Company pre-terminated its lease agreement for the office space in Terminal 3 which resulted to a gain of P557,222 recognized as part of other income (expenses), net. Subsequent monthly rentals amounting to P65,162,058 (2021 - P37,809,281) not covered the renewed lease agreement was classified as short-term lease and charged to profit or loss as part of operating expenses. As at December 31, 2022, the Company is in the process of renegotiating the lease agreements with its lessors as it intends to renew the term for another 3 years.

Expenses related to short-term leases also include bus rentals. Leases related to low-value assets pertain to small office equipment.

Rental expenses charged to profit or loss on other leases for the years ended December 31 are as follows:

	Notes	2022	2021
Cost of services	13		
Short term aircraft and engine lease		1,097,054,920	371,428,318
Bus rental		31,658,121	27,349,948
Operating expenses	14		
Office rental		65,162,058	37,809,281
		1,193,875,099	436,587,547

The total cash outflow for leases for the year ended December 31, 2022 amounted to P1,591,284,185 (2021 - P785,816,956).

Provision for aircraft redelivery costs

The Company is contractually required under its lease contracts to restore its leased aircraft based on a pre-agreed return condition at its own cost at the end of the lease term.

The rollforward analysis of the Company's provision for aircraft redelivery costs for the years ended December 31 are as follows:

	Notes	2022	2021
Balance at beginning of year		150,444,637	133,519,022
Additions		16,711,620	-
Accretion charged to profit or loss	15	12,463,694	8,454,375
Foreign exchange difference		13,957,208	8,471,240
		193,577,159	150,444,637

Provision for aircraft redelivery is classified in the statements of financial position as at December 31 are as follows:

	2022	2021
Current	39,241,325	41,245,789
Non-current	154,335,834	109,198,848
	193,577,159	150,444,637

Critical accounting estimates and assumptions: Provision for aircraft redelivery costs

Provision for aircrafts redelivery costs are accrued based on estimates made by the Company's engineers and historical cost incurred, which include estimates of future redelivery costs, overhaul and restoration costs. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, the actual redelivery costs will ultimately depend on the aircraft's utilization and market condition at the time of redelivery.

The Company considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimates and assumptions considering that the aircraft utilization and market conditions of the aircrafts vary. However, it is reasonably possible, on the basis of existing knowledge, that a change in the factors mentioned above would impact the recorded provisions for aircraft and redelivery costs.

Refundable deposits

Deposits related to the foregoing leases as at December 31 are as follows:

	Note	2022	2021
Aircraft leases	7	690,033,369	653,375,961
Hangar and office space	7	22,361,548	18,454,657
		712,394,917	671,830,618

Critical accounting estimates and assumptions: Incremental borrowing rate - leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for entities that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the entity's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's credit rating).

At the date of initial application, the Company used IBR ranging from 4.94% to 5.10% to measure lease liabilities. In 2021, for certain aircrafts that were restructured, the Company used IBR ranging from 7.84% to 9.29% to measure the restructured lease liabilities. In 2022, for additional restructured aircraft, the Company used IBR ranging from 8.79% to 10.99%

Note 17 - Retirement benefit obligation

The Company has an unfunded defined benefit pension plan covering all of its employees based on years of service and compensation on the last year of employment.

The Company's retirement plan provides for the following benefits based on the final monthly salary for every year of service:

		Minimum requirement (in years)	
Retirement plan	Rate of final monthly salary	Age	Service period
Normal	120%	60	5
Early	100%	50	10
Late	125%	60	Case to case basis

This retirement plan meets the minimum retirement benefit requirements as specified under R.A. No. 7641, *The Retirement Pay Law.*

Under the existing regulatory framework, R.A. No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of the retirement benefit expense charged to profit or loss for the years ended December 31 are as follows:

	Notes	2022	2021
Operating expenses			
Current service cost		74,451,598	88,326,257
Curtailment gain		-	(71,085,958)
	14	74,451,598	17,240,299
Interest expense	15	16,986,093	13,869,824
		91,437,691	31,110,123

Curtailment and retrenchment program

Curtailments relate to reduction in number of employees covered by the retirement plan as a result of the separation program undertaken by the Company. On May 6, 2020, the Company's BOD approved the implementation of cost-saving measures reasonably necessary to the business in light of COVID-19 outbreak. This resulted in reduction of its operations including termination of the services of 267 identified employees of the Company effective July 1, 2020.

As a result of the retrenchment of 267 staff effective July 1, 2020, the Company incurred separation costs amounting to P31.69 million which was paid during 2021. These separations costs are presented as part of salaries and employee benefits within cost of services and operating expenses in profit of loss.

Further, on January 1, 2021, the Company also offered voluntary separation program which resulted in the retrenchment of 357 employees. The separation costs amounting to P55.01 million paid in 2021 were charged to profit or loss as part of salaries and employee benefits within cost of services and operating expenses.

For the year ended December 31, 2021, the Company recognized curtailment gain amounting to P71.08 million which represents benefits earned under the existing programs and other one-time termination benefits.

The movements in the present value of defined benefit obligation for the years ended December 31 are as follows:

	2022	2021
Balance at beginning of year	340,402,674	438,012,516
Current service cost	74,451,598	88,326,257
Interest cost	16,986,093	13,869,824
Benefits paid	(4,674,595)	(2,288,700)
Curtailment gain	-	(71,085,958)
Remeasurement (gain) loss		
Changes in financial assumptions	(106,465,056)	(81,910,122)
Experience adjustments	66,219,704	(44,521,143)
Balances at end of year	386,920,418	340,402,674

The movement in the reserve for remeasurements on retirement benefit obligation for the years ended December 31 is as follows:

	2022	2021
Balances at beginning of year	94,207,472	(32,223,793)
Remeasurement gain	40,245,352	126,431,265
	134,452,824	94,207,472

The principal actuarial assumptions used for the years ended December 31 are as follows:

	2022	2021
Discount rate	7.11%	4.99%
Salary increase rate	5.00%	5.00%

- Discount rate - This is determined by reference to market yields at the end of the reporting period based on PHP BVAL reference rates as at December 31, 2022 and 2021.

- Salary increase rate - This is the expected long-term average rate of salary increase taking into account of inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period when the benefits are expected to be paid.

Shown below are the maturity analyses of undiscounted benefit payments as at December 31:

	2022	2021
Less than 1 year	25,108,551	19,742,064
More than 1 year and up to 5 years	85,878,525	83,979,624
More than 5 years and up to 10 years	154,039,145	154,250,116
More than 10 years and up to 15 years	352,039,428	276,267,081
More than 15 years and up to 20 years	706,976,981	782,557,568
More than 20 years	9,438,178,140	6,564,271,314

The weighted average duration of the defined benefit obligation as at December 31, 2022 and 2021 is 22 years.

Critical accounting estimates and assumptions: Principal assumptions for estimation of retirement benefit obligation

The determination of the Company's retirement benefit obligation and retirement benefits are dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate at the end of each year. Discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Company considers the interest rates on Philippine government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligation. Actual results that differ from the Company's assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement benefit expense and obligation.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions as at December 31 are as follows:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
2022			
Discount rate	+/-1%	(28,645,100)	39,214,479
Salary increase rate	+/-1%	38,405,521	(28,608,031)
2021			
Discount rate	+/-1%	(51,520,415)	65,928,734
Salary increase rate	+/-1%	63,505,171	(50,814,760)

The foregoing 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 periods) has been applied as when calculating the retirement benefit obligation recognized within the statement of financial position.

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

Note 18 - Related party transactions and balances

The Company the following transactions with its related parties for the years ended December 31:

	Transactions		
	2022	2021	Terms and conditions
(a) Aircraft lease agreements *Entities under common shareholder*	1,081,352,649	2,366,256,082	The Company entered into various lease agreements with Merah Putih 2, Inc. (MP2) and Red Lotus Aviation Limited, entities under common shareholder, for the lease of the Company's passenger aircraft. In 2018, MP2 started assigning its rights on its lease agreements with the Company to a third-party lessor. However, in 2021 and 2022 as part of lease restructuring, some of the aircraft transferred to the third-party lessor reverted back to related party lessors. Aircraft leases are accounted for under PFRS 16 and are recognized as right-of use assets (and are being amortized) and lease liabilities (Note 16).
(b) Collections made by (on behalf of) related parties, net *Entities under common shareholder*	3,089,918,234	16,332,134	These are proceeds from passenger ticket sales collected by related parties on behalf of the Company or vice versa. Collections made by related parties are initially recognized as contract liability by the Company. On a monthly basis, amounts are reconciled. Ticket sales pertaining to the Company are recognized as revenue once lifted and a related receivable from related parties is recorded. Collections made by the Company on behalf of related parties are recorded as liability upon receipt, hence no profit or loss impact.
(c) Intercompany charges to (from), net *Entities under common shareholder*	212,771,278	2,378,819,663	These relate to operating expenses incurred by (for) related parties on behalf of (by the) Company. These charges mainly consist of chargebacks for airport ground handling in cross countries, cargo handling fees, consumables and software maintenance and IT costs among others. These also included refunds made by related parties on behalf of the Company. These are billed by (billed to) the Company at cost.
(d) Shared service agreement *Entity under common shareholder*	51,165,281	115,904,812	The Company has a service agreement with AirAsia SEA Bhd. (AA SEA, formerly AirAsia Global Shared Services Sdn Bhd) to provide finance and accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services (Notes 14). These are charged to profit of loss as part of outside services.

	Transactions 2022	Transactions 2021	Terms and conditions
(e) Settled fuel derivative contracts *Entity under common shareholder*	-	39,438,522	Capital A Berhad enters into Brent and Crack derivative contracts with third parties to hedge the jet fuel requirements of the AirAsia network. For the years ended December 31, 2020 and 2019, Capital A Berhad entered into fuel derivative contracts with the Company for its related expected fuel consumption (Notes 10). Amounts of settled hedges are charged to profit or loss as part of fuel costs.
(f) Brand licensing agreement *Shareholder of the Parent Company*	341,115,310	6,546,397	Please see related discussions in Note 20.
(g) Loan and interest payments made on behalf of a related party *Parent Company*	-	969,294,000	In 2021, the Company has made loan principal and interest repayments on behalf of its Parent Company.
(h) Maintenance service contract *Entity under common shareholder*	219,836,696	-	In 2022, the Company entered into a contract with ADE to be one of its MRO provider to perform aircraft checks and maintenance. In addition, ADE also provide aircraft spares and consumables to the Company.
(i) Marketing costs *Entity under common shareholder*	58,208,801	7,675,454	These pertain to marketing costs charged by AirAsia Com Travel Sdn Bhd (AACOM) which is AirAsia Group's online distributor and marketing arm. AACOM provides marketing, advertising, sales and promotional activities for the AirAsia Group and owns and operates the online platform, airasia.com website.
(j) Key management compensation			Key management compensation covering salaries and wages and other short-term benefits are determined based on contract of employment and payable in accordance with the Company's payroll process. Key management personnel are also entitled to retirement benefits.
Salaries	62,596,500	63,816,286	
Other short-term employee benefits	11,700,000	8,437,634	
Retirement benefits	31,097,835	29,113,535	
	105,394,335	101,367,455	

The Company's outstanding related party balances as at December 31 in connection with the aforementioned transactions are as follows:

	Ref	2022	2021	Terms and conditions
Trade and other receivables *Entities under common shareholder (Note 3)*	b	78,004,960	93,472,975	These are unsecured, unguaranteed and non-interest bearing, with terms of 30 t0 60 days.
Due from related parties *Parent Company*	g	1,334,214,149	1,333,491,407	These are unsecured, unguaranteed, non-interest bearing, and collectible on demand.
Entity under common shareholder	c	-	464,898,378	
		1,334,214,149	1,798,389,785	

(26)

	Ref	2022	2021	Terms and conditions
Trade and other payables				These are unsecured, unguaranteed, and non-interest bearing, with terms of 30 to 60 days (Note 9).
Entities under common shareholder	a,b, c,d,e,f, h,i	4,784,515,271	4,327,996,349	
Entity under common control		752,582,847	752,976,040	In 2022, a shareholder affirmed that it will exercise restraint from calling on the net liabilities due from the Company until December 31, 2023. This restraint will however change once the Company's financial position has improved (Note 1).
Parent Company		910,280,255	892,708,699	
		6,447,378,373	5,973,681,088	
Due to a related party				These are unsecured, unguaranteed, non-interest bearing and payable on demand.
Parent Company		11,000,199,599	10,476,727,516	

Suretyship and guarantees

There are no collaterals held or guarantees issued by the Company with respect to related party transactions and balances. AAI continues to provide suretyship as security for the Company's credit line facility with BDO which is also secured by corporate guarantee of Capital A Berhad (Note 8).

As at December 31, 2022 and 2021, no obligations have been incurred by the aforementioned related parties in relation to this agreement.

Service agreement

In 2014, the Company entered into a service agreement with AA SEA for finance, accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services.

The Service Agreement is effective for a period of three (3) years and may be terminated by either party for any material breach, in the event that the Company terminates its operations, or if AA SEA is not able to provide the agreed services. In 2018, the Service Agreement was extended for another period of three (3) years until December 31, 2021. As at December 31, 2022, the Company is in the process of renewing the terms of this service agreement with the related party, but intends to renew for another three (3) years.

Fees charged by AA SEA are based on actual cost of manpower required plus a certain mark-up. These are included in operating expenses as part of outside services account in the statement of total comprehensive income.

Critical accounting judgment: Recoverability of amounts due from related parties

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The determination of ECL is initially based on the Company's historically observed default rates adjusted to forward looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

As at December 31, 2022 and 2021, management believes that the amounts due from related parties are recoverable.

Note 19 - Income taxes

There is no provision for current income tax recognized for the years ended December 31, 2022 and 2021 following the Company's gross loss and net loss positions.

The reconciliation of provision for income tax computed at the statutory income tax rate for the years ended December 31 to the income tax expense as shown in the statements of comprehensive income follows:

	2022	2021
Income tax benefit at statutory rate of 25%	(1,980,845,432)	(1,608,788,694)
Adjustments for:		
Tax expense from unrecognized DIT asset on net operating loss carry-over (NOLCO)	1,742,247,446	574,911,338
Movement in unrecognized deferred income tax (DIT) assets	238,612,589	623,792,923
Non-deductible expenses	3,651	5,412
Interest income subject to final tax	(18,254)	(27,058)
Effects of income tax changes	-	410,106,079
	-	-

DIT assets are determined using income tax rates in the period the temporary differences, NOLCO and MCIT are expected to be recovered or settled. Unrecognized DIT assets as at December 31 are as follows:

	Notes	2022	2021
NOLCO		14,677,653,907	7,708,664,124
Unrealized foreign exchange loss		2,484,282,772	1,475,401,805
Leases	6	1,611,623,892	1,339,025,815
Allowance for doubtful accounts	3	1,406,552,846	1,293,307,245
Provision for contingencies	9	392,931,941	-
Retirement benefit obligation	17	386,920,418	340,402,674
Provision for aircraft redelivery costs	16	193,577,159	150,444,637
Provision for impairment of ROU assets	6	-	963,100,000
		21,153,542,935	13,270,346,300
DIT effect at 25%		5,288,385,734	3,317,586,575
Excess minimum corporate income tax (MCIT)		-	95,091,782
Unrecognized DIT assets		5,288,385,734	3,412,678,357

Movement of unrecognized deferred tax assets charged to other comprehensive income for the years ended December 31 and therefore not forming part of the reconciliation above follows:

	Note	2022	2021
Remeasurement gain on retirement obligation	17	40,245,352	126,431,265
Tax rate		25%	25%
Tax effect		10,061,338	31,607,816

In compliance with the Tax Reform Act (the "Act") of 1997, NOLCO for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss.

Pursuant to Section 4 of Bayanihan II and as implemented under RR 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

Details of the Company's NOLCO as at December 31 are as follows:

Year loss was incurred	Year of expiration	2022	2021
2018	2021	-	652,131,956
2020	2025	5,979,617,005	5,979,617,005
2021	2026	1,729,047,119	1,729,047,119
2022	2025	6,968,989,783	-
		14,677,653,907	8,360,796,080
Expired during the year		-	(652,131,956)
		14,677,653,907	7,708,664,124
Tax rate		25%	25%
Unrecognized DIT asset on NOLCO		3,669,413,477	1,927,166,031

In compliance with the Act, the Company shall pay the greater of MCIT, which is 1%of gross income as defined under the Act, and the normal income tax. Any excess of MCIT over the normal income tax shall be carried forward for the next three consecutive taxable years immediately following the period such MCIT was paid.

Details of the Company's MCIT at December 31 are as follows:

Year paid	Year of expiration	2022	2021
2018	2021	-	10,331,348
2019	2022	95,091,782	95,091,782
		95,091,782	105,423,130
Expired during the year		(95,091,782)	(10,331,348)
Unrecognized DIT asset on excess MCIT		-	95,091,782

Critical accounting judgement: Determination of current and deferred income taxes

Significant judgment is required in determining the income tax expense recognized in profit or loss. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The income tax expense is determined based on assessment income and expense are taxable and deductible, respectively. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax and related liability in the period in which such determination is made.

Realization of the future tax benefit related to DIT assets is dependent on the Company's ability to generate future taxable income during the periods in which these are expected to be recovered. Management has considered these factors in reaching a conclusion to not recognize any of its DIT assets in the statement of financial position.

Passage of Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021, the president signed into law Republic Act No. 11534 or the CREATE Act, which is the reconciled version of the Bicameral Conference Committee. It settled the disagreeing provisions of House Bill No. 4157 and Senate Bill No. 1357. The CREATE Act was previously known as the Corporate Income Tax and Incentives Reform Act (CITIRA) bill. The law became effective on April 11, 2021.

Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

1. Reduction in CIT rate effective July 1, 2020 as follows:
   a. Domestic corporations will be subject to the following reduced CIT rates depending on their assets and taxable income:
      i. Those with assets amounting to P100,000,000 and below, and with taxable income equivalent to P5,000,000 and below will be subjected to a 20% tax rate; and
      ii. Those with assets above P100,000,000 or those with taxable income amounting to more than P5,000,000 will be subjected to a 25% tax rate.
   b. Foreign corporations (resident and nonresident foreign corporations) will have a fixed reduced tax rate of 25%.
2. Effective July 1, 2020 until June 30, 2023, the minimum corporate income tax rate shall be 1%.

Under CREATE, the Company prepared its annual income tax return for the years ended December 31, 2022 and 2021 using the updated rate of 25%.

For financial reporting purposes, the enactment of CREATE after December 31, 2020 was deemed a non-adjusting subsequent event in the December 31, 2020 financial statements. Hence, effect of changes in the tax rates applied is reflected in the income tax reconciliation for the year ended December 31, 2021.

Note 20 - Commitments

Brand License Agreement

On December 16, 2010, AirAsia Berhad (AAB or Licensor) and AAI (Licensee) entered into a Brand License Agreement (BLA). The BLA provides the Licensee a non-exclusive and non-assignable license to reproduce and use the AirAsia Brand: (a) in and for the purpose of Business Operations; (b) under the Permitted Name (including to adopt it as the Licensee's corporate name for the duration of the BLA); (c) in accordance with the AirAsia Branding Guidelines; and (d) in and for the purpose of Marketing Communications.

Pursuant to the BLA, the Licensee shall comply at all times with the recommendations made by the Licensor in respect of the use of the AirAsia Brand. The Licensee shall also use the AirAsia brand in accordance with all mandatory standards, specifications and operating procedures and other obligations contained in the Licensor's procedures manual, subject to applicable laws. The BLA provides that nothing in the agreement shall be construed to give control over the services and licensed flights to the Licensor. The Licensee shall have the technical and operational control of the aircraft used for the business operations and shall comply with all applicable laws governing such activity, including, as a minimum, those specified by the relevant competent authorities, and shall have the final authority concerning the operation, maintenance and safety of the aircraft and its passengers and crew.

The BOD of AAI has the power to amend and/or revise the BLA upon agreement with the Licensor under Clause 27.1 of the BLA.

On January 1, 2013, AAB and AAI entered into an addendum to the BLA wherein AAB granted AAI a limited authority to sub-license the AirAsia Brand to the Company for a period of six (6) months effective from September 26, 2013, subject to renewal option.

On January 4, 2017, the Company, AAB and AAI entered into an Amendment and Extension Agreement of the BLA. Amendments to the 2010 BLA includes the following:

- The BLA was amended to include the Company as a Licensee
- Ratification of the effectivity of the BLA which was extended for another five (5)-year term from December 16, 2015 to December 15, 2020; and,
- The Company and AAI have undertaken to comply at all times, insofar as feasible and permissible under the laws of the Philippines, with the recommendations made by AAB under the BLA.

On May 2, 2019, an amendment was executed which provided for the effectivity of the BLA for five (5) years from January 2019; and automatic extension for five (5) years by mutual agreement by AAB and the Company.

Further in 2021, AAB recalibrated the BLA charge rates across the entities in using the AirAsia Brand and reduced the license fee equivalent to 0.35% (2020 - 1.75%) of revenue per annum. The Company shall also pay the Licensor additional marketing cost as may be agreed between the parties and allocated as Licensee's contribution.

In 2022, the AAB reverted the license fee rate from 0.35% to 1.75%, with retrospective effect from 2020. The Company will still be liable to settle any marketing costs that may be agreed between the parties and allocated as Licensee's contribution. In addition, AA SEA management fees will be reduced to minimal coverage as a result of this change.

For the year ended December 31, 2022, brand license fees charged to profit or loss amounted to P341.1 million (2021 - P6.5 million) (Note 18).

Note 21 - Significant judgments, use of estimates and assumptions

Estimates, assumptions and judgments 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.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

21.1 Critical accounting estimates and assumptions

- *Allowance for impairment loss on trade receivables (Note 3)*
- *Impairment of ROU assets (Note 6)*
- *Provisions for claims (Note 9)*
- *Fair value of derivative instruments (Note 10)*
- *Provision for aircraft redelivery costs (Note 16)*
- *Incremental borrowing rate - leases (Note 16)*
- *Principal assumptions for estimation of retirement benefit obligation (Note 17)*

21.2 Critical accounting judgments

- *Assessment of the Company's ability to continue as a going concern (Note 1)*
- *Determination of net realizable value of expendable parts, materials and supplies (Note 4)*
- *Recoverability of property and equipment (Note 6)*
- *Recoverability of amounts due from related parties (Note 18)*
- *Determination of current and deferred income taxes (Note 19)*
- *Determination of functional currency (Note 22)*

Note 22 - Financial risk and capital management

22.1 Financial risk factors

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, due from related parties, refundable deposits, trade and other liabilities (excluding amounts payable to government agencies and agent deposits), lease liabilities and loans payable. The main purpose of these financial instruments is to finance the Company's operations. The Company also enters into fuel derivative transactions to manage its exposure to fuel price risks arising from the Company's operations.

The Company is exposed to a variety of financial risks: credit risk, liquidity risk and market risks (particularly foreign exchange risk, interest rate risk and fuel price risk). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company has no significant financial assets and liabilities exposed to other market risks such as price risk.

Financial risk management is carried out by a Company's local finance team under policies approved by the BOD and its shareholders. These policies focus on actively securing the Company's short to medium term cash flows by minimizing the exposure to financial markets. The Company does not engage in the trading of financial assets for speculative purposes.

22.2 Components of the Company's financial assets and liabilities

Details of the Company's financial assets at amortized cost as at December 31 are as follows:

	Notes	2022	2021
Cash	2	84,042,572	41,855,266
Trade and other receivables	3	1,678,402,467	1,415,602,385
Due from related parties	18	1,334,214,149	1,798,389,785
Deposits	7	882,170,456	760,612,601
		3,978,829,644	4,016,460,037

Trade and other receivables as at December 31, 2022 are presented gross of allowance for impairment of receivables amounting P1,406,552,846 (2021 - P1,293,307,245) and exclude other receivables which consist mainly of advances to employees which are subject to liquidation amounting to P17,043,115 (2021 - P27,597,306) (Note 3).

Spares and maintenance deposit as at December 31, 2022 amounting to P13,030,169 (2021 - P24,986,595) is considered non-financial asset.

Details of the Company's financial liabilities at amortized costs as at December 31 are as follows:

	Notes	2022	2021
Trade and other payables	9	15,843,737,840	13,735,591,836
Due to a related party	18	11,000,199,599	10,476,727,516
Loans payable	8	1,047,924,325	974,229,767
Lease liabilities	16	17,229,747,607	14,613,030,500
Provision for aircraft redelivery costs	16	193,577,159	150,444,637
		45,315,186,530	39,950,024,256

Trade and other payables presented above exclude the following non-financial liabilities as at December 31:

	Note	2022	2021
Deposits from travel agents		197,241,418	228,045,825
Payable to government agencies		841,217,673	300,059,685
Output VAT payable		79,407,205	39,215,051
	9	1,117,866,296	567,320,561

Provisions for claims as at December 31, 2022 amounting to P723,038,365 (2021 - P330,106,424) are considered non-financial liabilities.

22.3 Credit risk

Credit risk refers to the risk that a counterparty will cause a financial loss to the Company by failing to discharge an obligation. Significant changes in the economy, that may represent a concentration in the Company's business, could result in losses that are different from those provided for at reporting dates.

Credit risk arises from cash deposits with banks, as well as credit exposure on trade and other receivables, due from related parties and deposits from other counterparties. The Company's maximum exposure is equal to the fair value of these financial assets. The fair values of these financial assets approximate their net carrying amounts.

Provision for impairment of financial assets are determined using ECL. A credit loss is the difference between the contractual cash flows to which the Company is entitled and the cash flows expected by the Company. Since the ECL takes into account the amount and timing of payments, a credit loss may also occur if the Company expects payment to be made in full, but later than the contractually agreed date.

ECL is determined through a three-stage general approach. In accordance with the three-stage model, debt instruments measured at amortized cost are initially recognized in Stage 1. The expected loss is equal to the loss that may occur due to possible default events in the twelve months following the reporting date. Financial assets that have experienced a significant increase in credit risk of the counterparty since initial recognition are transferred from Stage 1 to Stage 2. A significant increase includes situations in which debtors are no longer able to meet their payment obligations at short notice or when it appears that the debtor has experienced an actual or expected deterioration in business performance. The credit risk can then be measured using the probability of default over the instrument's lifetime. The impairment loss is equivalent to the loss that may occur due to possible default events during the remaining term of the financial asset. If there is objective evidence that a financial asset is impaired, it must be transferred to Stage 3.

The Company has the following financial assets as at December 31 where the ECL model has been applied:

	Gross carrying amount	Credit risk			Loss allowance	Net carrying amount
		Stage 1	Stage 2	Stage 3		
2022						
Cash in banks	81,999,916	81,999,916	-	-	-	81,999,916
Trade and other receivables	1,678,402,467	205,877,682	65,971,939	1,406,552,846	(1,406,552,846)	271,849,621
Due from related parties	1,334,214,149	1,334,214,149	-	-	-	1,334,214,149
Deposits	882,170,456	882,170,456	-	-	-	882,170,456
	3,976,786,988	2,504,262,203	65,971,939	1,406,552,846	(1,406,552,846)	2,570,234,142

	Gross carrying amount	Credit risk Stage 1	Stage 2	Stage 3	Loss allowance	Net carrying amount
2021						
Cash in banks	40,139,266	40,139,266	-	-	-	40,139,266
Trade and other receivables	1,415,602,385	1,224,859	121,070,281	1,293,307,245	(1,293,307,245)	122,295,140
Due from related parties	1,798,389,785	1,798,389,785	-	-	-	1,798,389,785
Deposits	760,612,601	760,612,601	-	-	-	760,612,601
	4,014,744,037	2,600,366,511	121,070,281	1,293,307,245	(1,293,307,245)	2,721,436,792

<u>Credit quality of the Company's financial assets</u>

Cash in banks

To minimize credit risk exposure from cash in banks, the Company maintains cash deposits in reputable banks. For balances with banks and financial institutions, credit risk is managed in accordance with the Company's policy. Counterparty limits are reviewed and approved by the Company's BOD and are updated when necessary. Cash are placed in various local banks that have good reputation and low probability of insolvency.

Amounts deposited in these banks as at December 31 are as follows:

	2022	2021
Universal	67,322,098	33,211,837
Commercial	14,677,818	6,927,429
	81,999,916	40,139,266

The remaining balance of cash as presented in the statements of financial position as at December 31, 2022 amounting to P2,042,656 (2021 - P1,716,000), represent cash on hand, which is not exposed to credit risk.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit quality of trade and other receivables are further classified and assessed by reference to historical information about each counterparty's historical default rates). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Company's historically observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Stage 1 - Customer balances without history of default and assessed to be fully recoverable.
Stage 2 - Customers with some defaults in the past. All defaults were fully recovered.
Stage 3 - Individual assessed customer with defaults and which the Company no longer expects to recover the balance despite its collection efforts. Loss rates applied for outstanding amounts in this stage is 100%.

Due from related parties

Due from related parties arise mainly from advances and payments made by the Company on behalf of its related party. These collectible on demand and therefore, expected credit losses are based on the assumption that repayment of balances outstanding are demanded at the reporting date.

Based on assessment of qualitative and quantitative factors that are indicative of the risk of default, including but not limited to, availability of accessible highly liquid asset and internal and external funding of the related party, the Company has assessed that the outstanding balances are exposed low credit risk. Expected credit losses on these balances have therefore been assessed to be insignificant.

Deposits

Deposits that are neither past due nor impaired consist primarily of amounts related to the Company's aircraft leases which are fully collectible at the end of the lease term.

None of the financial assets that are fully performing has been renegotiated as at December 31, 2022 and 2021.

22.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity risk management implies maintaining sufficient cash, timely collection of receivables from customers, 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 its underlying business, the Company aims to maintain flexibility in funding by keeping track of daily cash sales collections and maintaining committed credit lines available with local banks. The Company also obtains funding from its shareholders as well as other third-party banking institutions, as necessary, to finance its operations and working capital requirements.

The amounts disclosed are the contractual undiscounted cash flows. Amounts due within twelve months equal their carrying balances, as the impact of discounting is not significant.

The tables below analyze the Company's financial liabilities as at December 31 into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

	Due and demandable	Due within one year	Within 1 to 5 years	Later than 5 years	Total
2022					
Trade and other payables	-	15,843,737,840	-	-	15,843,737,840
Due to a related party	11,000,199,599		-		11,000,199,599
Loans payable	-	113,604,765	934,319,560	-	1,047,924,325
Lease liabilities, gross	-	8,578,880,020	9,316,924,920	3,565,962,184	21,461,767,124
Provision for aircraft redelivery costs	-	39,241,325	154,335,834	-	193,577,159
Future interest payable on loans	-	57,381,843	61,659,522	-	119,041,365
	11,000,199,599	24,632,845,793	10,467,239,836	3,565,962,184	49,666,247,412
2021					
Trade and other payables	-	13,735,591,836	-	-	13,735,591,836
Due to a related party	10,476,727,516	-	-	-	10,476,727,516
Loans payable	-	974,229,767	-	-	974,229,767
Lease liabilities, gross	-	6,997,763,884	6,678,156,935	3,430,993,027	17,106,913,846
Provision for aircraft redelivery costs	-	41,245,789	109,198,848	-	150,444,637
Future interest payable on loans	-	37,152,555	-	-	37,152,555
	10,476,727,516	21,785,983,831	6,787,355,783	3,430,993,027	42,481,060,157

22.5 Market risk

a) *Foreign currency exchange risk*

Foreign currency exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company closely monitors changes in foreign exchange rates and records any exchange gains or losses in profit or loss. Most of the Company's transactions are carried out in Philippine Peso. Exposures to currency exchange rates arise from the Company's overseas purchases, which are primarily denominated in United States Dollar (USD), Chinese Yuan (CNY) and Korean Won (KRW).

The Company manages its foreign currency exchange risk through minimizing transactions in foreign currency and maintaining sufficient cash in foreign currency to cover its maturing obligations denominated in foreign currency.

The Company's foreign currency denominated monetary assets and liabilities as of December 31 are as follows:

	2022			2021		
	USD	CNY	KRW	USD	CNY	KRW
Cash	$140,702	¥993,329	₩84,466,581	$56,162	¥292,557	₩30,975,254
Trade and other receivables	23,022,139	4,326,818	2,553,036,420	22,691,900	-	2,431,061,501
Deposits	12,926,876	6,200,000	490,068,667	13,321,076	6,200,000	-
	36,089,717	11,520,147	3,127,571,668	36,069,138	6,492,557	2,462,036,755
Trade and other payables	(247,505,161)	(55,217,858)	(723,955,985)	(87,928,728)	(5,535,476)	(1,630,357,043)
Due to a related party	(114,216,000)	-	-	(114,216,000)	-	-
Loans payable	(18,842,727)	-	-	(19,090,909)	-	-
Lease liabilities	(309,831,822)	-	-	(286,355,501)	-	-
Provision for aircraft redelivery costs	(3,709,496)	-	-	(2,948,098)	-	-
	(694,105,206)	(55,217,858)	(723,955,985)	(510,539,236)	(5,535,476)	(1,630,357,043)
Net foreign currency assets (liabilities)	($658,015,489)	(¥43,697,711)	₩2,403,615,683	($474,470,098)	¥957,081	₩831,679,712
Exchange rates at December 31	55.61	8.07	0.04	51.03	8.01	0.04
Philippine Peso equivalent	(P36,592,241,343)	(P352,640,528)	P96,144,627	(P24,212,209,101)	P7,666,219	P33,267,188

Details of net foreign exchange loss charged to profit or loss for the years ended December 31 are as follows:

	2022	2021
Realized foreign exchange gain	25,075,708	18,630,565
Unrealized foreign exchange loss	(2,484,282,772)	(1,475,401,805)
	(2,459,207,064)	(1,456,771,240)

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's loss before tax as at December 31:

2022				2021			
Change in foreign exchange rates	USD	CNY	KRW	Change in foreign exchange rates	USD	CNY	KRW
+0.28%	102,458,276	987,393	(269,205)	+0.55%	107,321,472	38,464	215,001
-0.28%	(102,458,276)	(987,393)	269,205	-0.55%	(107,321,472)	(38,464)	(215,001)

The reasonable possible changes in foreign exchange rates in 2022 and 2021 used in the sensitivity analyses were determined based on average movement in the monthly exchange rates during the reporting periods.

Critical accounting judgment: Determination of functional currency

The Company's booking revenues are in various currencies. Bank loans and certain costs, including fuel, repairs and leases are incurred in US$, while some costs and expenses (e.g., salaries and wages) are in Philippine Peso. PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Company's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company.

In making this judgment, the Company considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained

Management determined that Philippine Peso is the functional currency for the Company, after considering the criteria stated in PAS 21.

b) *Interest rate risks*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

As at December 31, 2022 and 2021, the Company's loans payable is subject to floating interest rate. As such, the Company is only exposed to cash flow interest rate risk.

If interest rates increase/decrease by 100 basis points (all other variables held constant), loss before income tax for the year ended December 31, 2022 would have been P10.48 million higher/lower (2021 - P9.74 million higher/lower).

22.6 Fair value estimation

As at December 31, 2022 and 2021, the carrying amounts of the Company's cash, trade and other receivables, due from related parties, trade payables and other current liabilities and due to a related party approximate their fair values due to the short-term nature of these financial instruments. The fair value of the Company's long term financial assets and liabilities also approximate its carrying values as the nominal interest rates approximate market interest rates.

22.7 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital (Note 1). In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

The Company is subject to externally imposed capital requirements (Note 8).

Total capital being managed by the Company is equal to the total capital deficiency as shown in the statements of financial position excluding reserve for remeasurements on retirement benefit obligation.

Note 23 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

23.1 Basis of preparation

These financial statements of the Company have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations of the Standing Interpretations Committee (SIC), International Financial Reporting Interpretations Committee (IFRIC) and Philippine Interpretations Committee (PIC), which have been approved by the Financial and Sustainability Reporting Standards Council (FSRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost basis, except for the derivatives on hedge that are measured at fair values.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 21.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

There are no new standards and amendments to existing standards effective for annual periods beginning January 1, 2022 that are considered relevant to the Company.

(b) New and amended standards not yet adopted by the Company

A number of new standards and amendments are effective for annual periods beginning after January 1, 2022 and have not been applied in preparing the financial statements. None of these standards are expected to be relevant on the financial statements of the Company, except for the following:

- *PAS 1 - Classification of liabilities as current or non-current*

  The amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what the standard means when it refers to the "settlement" of a liability.

  The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company does not expect the amendments to have a significant impact on the Company's financial statements.

- *PAS 1 and PFRS Practice Statement 2 - Disclosure of accounting policies*

  The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company does not expect the amendments to have a significant impact on the Company's financial statements.

- *PAS 8 - Definition of accounting estimates*

  The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company does not expect the amendments to have a significant impact on the Company's financial statements.

- *PAS 12 - Deferred tax related to assets and liabilities arising from a single transaction*

  The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

  a. right-of-use assets and lease liabilities, and
  b. decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets.

  The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate. PAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company does not expect the amendments to have a significant impact on the Company's financial statements.

23.2 Financial instruments

23.2.1 Financial assets

Classification

The Company classifies its financial assets in the following measurement categories: (a) those to be measured subsequently at fair value (either through OCI or through profit or loss), and (b) those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company's financial assets under category (b) includes cash in banks, trade and other receivables (Note 3), due from related parties (Note 18) and deposits except for spares and maintenance deposits (Note 7).

Financial assets are included in current assets, except when these are expected to be received or realized more than twelve (12) months after the financial reporting date which are classified as non-current assets.

Recognition and measurement

The Company recognizes a financial asset in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Regular-way purchases and sales of financial assets are recognized on trade date - the date on which the Company commits to purchase or sell the asset.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Trade receivables are measured at the transaction price determined under PFRS 15.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The measurement categories into which the Company classifies its debt instruments financial assets are as follows:

- Amortized cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income/(expense), net.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognized in other income/(expenses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/(expenses).

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other income/(expenses) in the period in which it arises.

Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Loss allowances of the Company are measured on either of the following bases:

- 12-month expected credit losses (ECLs): these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset

The Company applies the general approach to provide for ECLs on its financial assets. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 180 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the counterparty;
- a breach of contract such as actual default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off and recovery

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Subsequent recoveries of amounts previously written-off are credited against operating expenses in profit or loss.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss.

23.2.2 Financial liabilities

Classification

The Company classifies its financial liabilities in the following categories: (i) financial liabilities at fair value (including financial liabilities held for trading and those that are designated at fair value) and (ii) financial liabilities at amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The Company's financial liabilities under category (i) includes derivative liabilities (Note 10). The Company's financial liabilities at amortized cost includes trade payables and other liabilities (excluding payable to government agencies, output VAT payable and deposits from travel agents), lease liabilities, loans payables and due to related parties.

These are included in current liabilities, except for maturities greater than 12 months after the reporting date which are classified as non-current liabilities.

The Company's financial liabilities are disclosed in Note 22.

Initial recognition and subsequent measurement

The Company recognizes a financial liability in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial liabilities at amortized cost are initially measured at fair value net of transaction costs. Subsequently, these are measured at amortized cost using the effective interest method. Interest expense on financial liabilities is recognized within finance cost, at gross amount, in profit or loss.

Derecognition

Financial liabilities are derecognized when extinguished, that is, when the obligation specified in a contract is discharged or cancelled or when the obligation expires.

23.2.3 Derivative financial instruments

The Company uses derivative financial instruments, such as swaps and options, to hedge its fuel price risks. Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 10. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

As at and for the years ended December 31, 2022 and 2021, the Company did not have fair value hedges and net investment hedges.

Cash flow hedge

Effective January 1, 2019, the Company designated the derivative contracts as cash flow hedges. In cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income (OCI) in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability.

This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any accumulated OCI of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the accumulated OCI of hedging that were reported in equity are immediately reclassified to profit or loss.

23.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty. The Company has no existing offsetting arrangements as at December 31, 2022 and 2021.

23.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

For non-financial assets, the Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities take into account non-performance risk, which is the risk that the entity will not fulfil an obligation.

23.5 Cash

Cash includes cash on hand and deposits held at call with banks. These are carried in the statement of financial position at face amount or at nominal amount, which approximates its amortised cost using the effective interest rate method. Cash in banks earn interest at prevailing bank deposit rates.

23.6 Receivables

Trade receivables arising from regular sales with an average credit term of approximately 30 days are measured initially at transaction price plus transaction costs, which approximates the original invoice amount, and subsequently measured at amortized cost less any provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

The relevant policies on classification, recognition, measurement, impairment and derecognition are further disclosed in Note 23.2.

23.7 Expendable parts, materials and supplies

Expendable parts, materials and supplies which are essentially the Company's inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of inventories comprises of all costs of purchases and other costs incurred in bringing it to their present location and condition attributable to purchase of these inventories. Cost of these inventories is further reduced by provision for inventory obsolescence, if any.

Expendable parts, materials and supplies are derecognized in the statement of financial position when consumed or written-off. When inventories are consumed, the carrying amount of these expendable parts, materials and supplies is recognized as an expense.

23.8 Prepaid expenses and other assets

Prepayments are recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Advances to suppliers represent advance payments to suppliers relating to importation of goods purchased and payments to contractors for acquisition of capital equipment that require certain percentage of down payments. These are recognized at fair value, which approximate the suppliers' invoice amounts, and subsequently capitalized as inventories or property and equipment when the related goods or equipment have been delivered.

Prepayments and advances to suppliers are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting date which are classified as non-current assets.

Other assets in the form of CWTs and input VAT represent taxes imposed on the Company for the acquisition of goods and services. These are stated at face value less any provision for impairment and are utilized when there is a legally enforceable right to offset the recognized amounts against output VAT obligations and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Input VAT are included in current assets, except when utilization and claims against output VAT are expected to be more than twelve (12) months after the reporting date, in which these are classified as non-current assets.

23.9 Property and equipment

Property and equipment are recognized at cost upon initial recognition. Cost includes the purchase price and expenditure that is directly attributable to the acquisition of the items including the cost of bringing the assets to its location and working condition.

Following the initial recognition at cost, all items of property and equipment are subsequently measured at cost less accumulated depreciation, amortization and any impairment. Subsequent costs are included in the asset's carrying amount or recognized 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. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is calculated using the straight-line method to allocate the cost of each asset, less its residual value, over its estimated useful lives, as follows:

	Number of years
Motor vehicles	5
Office furniture and fixtures	5
Aircraft support machinery and equipment	5 to 10

Leasehold improvements are amortized over the lease period or useful lives of 10 years, whichever is shorter.

The assets' useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and methods of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. When assets are derecognized, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts. Any gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are recognized in profit or loss.

23.10 Aircraft redelivery costs

Provision for aircraft redelivery costs arose from the Company's obligation, under its operating lease contracts, to bear certain costs of restoration, among others, at the time of the scheduled redelivery of the aircraft. A corresponding asset is recognized as part of property and equipment. Redelivery costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and is recognized in the statement of comprehensive income under "Interest expense" account. The estimated future costs of redelivery are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the asset. The amount deducted from the cost of the asset shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the statement of income.

23.11 Impairment of non-financial assets

Non-financial assets, such as property and equipment (including the right-of-use assets) and prepayments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

23.12 Trade payables and other liabilities

Accounts payable and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. These are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost using effective interest method. Accounts payable and other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable and other liabilities are derecognized when the obligation under the liability is discharged, canceled or expired.

23.13 Borrowings and borrowing costs

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of total comprehensive income over the period of the borrowings using the effective interest method.

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

Borrowings are derecognized when the obligation is settled, paid or discharged.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognized and charged to operations in the year in which these are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are recorded as property and equipment, as applicable. All other borrowing costs are expensed in the period they occur.

As at December 31, 2022, and 2021, there are no borrowing costs directly attributable to the construction of a qualifying asset.

23.14 Leases

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are classified in the consolidated financial position as part of property and equipment.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

	Number of years
Passenger aircraft	4 to 12
Engines	5
Office	3

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets consist mainly for bus rental and office space, which are recognized as expense on a straight-line basis over the lease term.

23.15 Equity

Share capital

The Company's share capital consists of common shares and preferred shares. Capital stock is measured at par value. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of any tax effects.

Preferred shares that are not redeemable or are redeemable at the option of the Company and where payment of dividends is discretionary are classified as equity.

Deficit

Deficit represents accumulated losses of the Company less dividends declared if any, and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retrospectively. The Company is in a deficit position as at December 31, 2022 and 2021. Hence, there are no declarable dividends.

23.16 Revenue

The Company is in the business of providing air transportation services. Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Company expects to be entitled to. The specific recognition criteria for each type of revenue are as follows:

Passenger, cargo and other revenues

Passenger, cargo and other revenues (e.g., baggage fees, rebooking fees and other auxiliary income) are recognized over time when the services are rendered (i.e., when the passenger or cargo is lifted), and when applicable, are stated net of discounts. Collections for which services have not been rendered are recognized as contract liability (referred to herein as 'Unearned revenue'). Unearned revenue from passenger ticket are recognized as revenue once the service has been rendered based on the terms and conditions of the ticket.

Sales of in-flight meals and merchandise

Other revenues pertaining to sale of inflight meals and merchandises are recognized at the point in time when control of the asset is transferred to the customer, generally on the delivery and acceptance by the customers of the goods.

23.17 Other income

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method when it is determined that such income will accrue to the Company.

Other income

All other income is recognized when earned or when the right to receive payment is established.

23.18 Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities (or unearned revenues)

A contract liability (presented as Unearned revenues in the statement of financial position) is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Contract liabilities mainly consists of unearned revenues arising from collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

23.19 Costs and expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. These are presented in the statements of total comprehensive income according to function of such costs and expenses.

Cost of services

Cost of services represents costs incurred in relation to Company's inflight services. These costs include fuel, staff costs for its flight and ground crews, depreciation of aircraft fleet and ground handling related costs.

Operating expenses

Costs of day-to-day operations are generally expensed when incurred.

23.20 Employee benefits

Short-term benefits

Provision is made for benefits accruing to employees in respect of wages and salaries when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured using their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Retirement benefit obligation

The Company recognized retirement benefit obligation computed based on a defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long-term Philippine treasury 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 obligation.

In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on the PHP BVAL Reference Rates adjusted based on the average durations of the benchmark government bonds as at the valuation date, considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

Defined benefit cost is comprised of the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. Current and past service costs are recognized immediately in profit or loss.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account remeasurement gains (losses) on retirement plans are not reclassified to statement of income in subsequent periods.

Curtailment gain or loss resulting from the reduction in number of employees covered by the plan are recognized immediately in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

23.21 Current and deferred income tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax (DIT) is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. DIT is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

DIT assets are recognized for all deductible temporary differences and carry-forward of unused tax losses (net operating loss carryover or NOLCO) and tax credits (MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses and tax credits can be utilized.

DIT liabilities are recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

DIT 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 taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

DIT expense or credit is recognized for changes in DIT assets and liabilities during the reporting period. Income tax expense includes income tax as currently payable and those deferred because of temporary differences in the financial and tax reporting bases of assets and liabilities, and unused tax losses and tax credits.

No deferred income tax assets were recognized for temporary differences as management believes that it will not be able to generate sufficient taxable profit to allow for the benefits of the deferred income tax assets to be utilized in the near future. The Company reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

23.22 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among entities which are under control with the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

23.23 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized from the statement of financial position.

23.24 Contingencies

Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed when an inflow of economic benefits is probable.

23.25 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are prepared in Philippine Peso, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the Philippine Peso using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of total comprehensive income.

23.26 Events after the financial reporting date

Any post year-end event up to the date of the approval of the financial statements that provides additional information about the Company's position at reporting date (adjusting event) is reflected in the financial statements. Any post year-end event that is not an adjusting event is disclosed, when material, in notes to the financial statements.

Note 24 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Based on the duly filed returns, below is the additional information required by RR No. 15-2010:

(i) Output VAT

Output VAT declared for the year ended December 31, 2022 and the gross revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Sales/receipts		
Subject to 12% VAT	1,332,987,736	159,958,528
Subject to zero-rated VAT	13,800,080	-
Total	1,346,787,816	159,958,528
Applied input VAT		(80,551,323)
Net VAT payable		79,407,205

Receipts from the transport of passengers and cargoes to and from places within the Philippines are subject to 12% VAT. Gross receipts from international operations are either exempt or zero-rated.

Transport from the Philippines to foreign countries are zero-rated while inbound transport is VAT exempt.

The gross revenues on sale of services are based on gross receipts of the Company while gross revenues amounting to presented in the statements of total comprehensive income are measured in accordance with the Company's accounting policy.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2022 are as follows:

Beginning balance	-
Add: Current year's domestic purchases/payments for:	
Goods	59,659,824
Services	20,162,381
Importation of goods other than capital goods	662,797
Total	80,485,002
Claim for tax credit/tax refund and other adjustments	66,321
Total available input VAT	80,551,323
Application against output VAT	(80,551,323)
Ending balance	-

(iii) Documentary stamp tax (DST)

For the year ended December 31, 2022, the Company did not incur any documentary stamp tax.

(iv) Other taxes and licenses

All other local and national taxes paid and accrued for the year ended December 31, 2022 consist of:

Permits and license fees	776,519
Local business	500
	777,019

(v) Withholding taxes

Withholding taxes on compensation paid and accrued for the year ended December 31, 2022 amounted to P5,998,961 and 75,189,648, respectively.

(vi) Tax assessments

On December 12, 2022, the Company has received a Final Assessment Notice (FAN) from the BIR for the tax investigation covering all taxes of the taxable year 2016. The FAN is currently under protest and has not yet been settled as of reporting date.

On January 13, 2023, the Company has received a Preliminary Assessment Notice (PAN) from the BIR for the tax investigation covering all taxes of the taxable year 2018. The PAN is currently under protest and has not yet been settled as of reporting date.

(vii) Tax cases

The Company does not have any outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside of the BIR as at and for the year ended December 31, 2022.

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Independent Auditor's Report

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at December 31, 2023 and 2022 and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2023 and 2022;
- the statements of total comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in equity for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the financial statements, including material accounting policy information.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
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Material Uncertainty regarding Going Concern

We draw attention to Note 1.2 in the financial statements, which indicates that the Company incurred a loss of P4.57 billion (2022 - P7.92 billion) which resulted to accumulated deficit as at December 31, 2023 of P44.49 billion (2022 - 39.92 billion) and capital deficiency of P43.74 billion (2022 - P39.19 billion). In addition, the Company has a negative working capital (current assets less current liabilities) of P42.26 billion as at December 31, 2023 (2022 - P36.53 billion). These conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

The following business initiatives are being pursued to continuously improve operations and stimulate demand towards the achievement of pre-pandemic levels: (a) commercial operations resumption with main focus to fully restore and accelerate growth in the domestic sector outside Manila hub to catch up to competitors' market share and boost its position in the international market by expanding in East Asia, particularly to Japan, China and Hong Kong; (b) increase the number of accredited partners (agents) and maximize yield by offering new products and applying customized approaches to different cargo demands; (c) implement programs to ensure that revenue is maximized on baggage, seat selection, fees, food, insurance and other ancillary products and services which generated higher yield and take-up rate; and (d) to monitor and control costs by driving operational efficiencies. The effective implementation of these business initiatives is expected to bring favorable results to the Company's business operations in the long term. Furthermore, the Company has obtained a letter of support from its major shareholders.

We have performed sufficient and appropriate audit procedures to evaluate management's plans for such future actions to sustain its operations. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

In preparing the financial statements, 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
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Auditor's Responsibilities for the Audits of the Financial Statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 management.

- Conclude on the appropriateness of 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

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

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Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
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Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 23 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Aina Regina S. Arboleda
Partner
CPA Cert. No. 121437
P.T.R. No. 0032644, issued on January 12, 2024, Makati City
TIN 302-764-832
BIR A.N. 08-000745-238-2023, issued on January 30,2023; effective until January 29, 2026
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 15, 2024

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Statement Required by Rule 68 Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

We have audited the financial statements of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at and for the year ended December 31, 2023, on which we have rendered the attached report dated April 15, 2024.

In compliance with Revised SRC Rule 68, based on the certification received from the Company's corporate secretary and the results of our work done as at December 31, 2023, the Company has two (2) shareholders owning one hundred (100) or more shares each.

Isla Lipana & Co.

Aira Regina S. Arboleda
Partner
CPA Cert. No. 121437
P.T.R. No. 0032644, issued on January 12, 2024, Makati City
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Makati City
April 15, 2024

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Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Financial Position
As at December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
ASSETS			
Current assets			
Cash	2	66,561,623	84,042,572
Trade and other receivables, net	3	573,685,734	288,892,736
Expendable parts, materials and supplies	4	678,280,647	509,930,726
Prepayments and other current assets	5	340,183,935	471,866,413
Due from a related party	17	333,786	1,334,214,149
Total current assets		1,659,045,725	2,688,946,596
Non-current assets			
Property and equipment, net	6	10,169,337,983	7,460,085,384
Deposits	14	1,011,420,564	895,200,625
Total non-current assets		11,180,758,547	8,355,286,009
Total assets		12,839,804,272	11,044,232,605
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables and other current liabilities	8	18,895,308,892	16,961,604,136
Unearned revenue	10	3,004,344,589	2,693,214,084
Loans payable	7	317,230,128	113,604,765
Provisions for claims	8	1,028,062,900	723,038,365
Lease liabilities, current portion	15	7,920,907,671	7,684,031,107
Provision for aircraft redelivery cost, current portion	15	39,241,325	39,241,325
Due to related parties	17	12,714,791,183	11,000,199,599
Total current liabilities		43,919,886,688	39,214,933,381
Non-current liabilities			
Lease liabilities, net of current portion	15	9,719,289,669	9,545,716,500
Loans payable	7	613,311,580	934,319,560
Provision for aircraft redelivery costs, net of current portion	15	1,894,941,256	154,335,834
Retirement benefit obligation	16	433,054,825	386,920,418
Total non-current liabilities		12,660,597,330	11,021,292,312
Total liabilities		56,580,484,018	50,236,225,693
Equity			
Share capital	9	595,000,000	595,000,000
Deficit		(44,492,587,432)	(39,921,445,912)
Remeasurement gain on retirement benefit obligation	16	156,907,686	134,452,824
Total capital deficiency		(43,740,679,746)	(39,191,993,088)
Total liabilities and capital deficiency		12,839,804,272	11,044,232,605

(The notes on pages 1 to 47 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Total Comprehensive Income
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Revenue			
Passenger		17,689,943,923	8,126,447,559
Cargo		408,637,364	395,809,263
Other revenues		3,243,501,912	1,211,393,094
	10	21,342,083,199	9,733,649,916
Cost of services	11	(22,909,438,580)	(13,646,258,313)
Gross loss		(1,567,355,381)	(3,912,608,397)
Operating expenses	12	(2,092,780,278)	(1,766,483,508)
Other income (expenses), net	13	317,830,851	(1,251,418,194)
Finance costs	13	(1,228,836,712)	(992,871,628)
Loss before income tax		(4,571,141,520)	(7,923,381,727)
Provision for income tax	18	-	-
Loss for the year		(4,571,141,520)	(7,923,381,727)
Other comprehensive income for the year			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain on retirement benefit obligation	16	22,454,862	40,245,352
Total comprehensive loss for the year		(4,548,686,658)	(7,883,136,375)

(The notes on pages 1 to 47 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Changes in Equity
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Share capital (Note 9)	Deficit	Reserve for remeasurements on retirement benefit obligation (Note 16)	Total capital deficiency
Balances as of January 1, 2022	595,000,000	(31,998,064,185)	94,207,472	(31,308,856,713)
Comprehensive income for the year				
Loss for the year	-	(7,923,381,727)	-	(7,923,381,727)
Other comprehensive income for the year	-	-	40,245,352	40,245,352
Total comprehensive loss for the year	-	(7,923,381,727)	40,245,352	(7,883,136,375)
Balances as of December 31, 2022	595,000,000	(39,921,445,912)	134,452,824	(39,191,993,088)
Comprehensive income for the year				
Loss for the year	-	(4,571,141,520)	-	(4,571,141,520)
Other comprehensive income for the year	-	-	22,454,862	22,454,862
Total comprehensive loss for the year	-	(4,571,141,520)	22,454,862	(4,548,686,658)
Balances as at December 31, 2023	595,000,000	(44,492,587,432)	156,907,686	(43,740,679,746)

(The notes on pages 1 to 47 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Cash flows from operating activities			
Loss before income tax		(4,571,141,520)	(7,923,381,727)
Adjustments for:			
Depreciation and amortization of assets	6	2,242,125,287	2,360,450,856
Interest expense	13	977,955,758	923,450,041
(Reversal of) provision for impairment of receivables	3	(55,092,708)	113,245,601
Interest income	2,13	(186,714)	(73,018)
Unrealized foreign currency exchange loss	21	(418,830,394)	2,484,282,772
Gain on lease termination	13	(138,968,485)	
Loss on retirement of PPE	6	68,672	2,238,787
Reversal of impairment loss on ROU assets	13	-	(963,100,000)
Operating loss before changes in assets and liabilities		(1,964,070,104)	(3,002,886,688)
(Increase) decrease in:			
Trade and other receivables		(232,657,487)	(149,044,730)
Expendable parts, materials and supplies		(168,349,921)	(182,427,397)
Prepayments and other current assets		131,682,478	(135,546,446)
Due from a related party		1,333,880,363	463,452,894
Increase (decrease) in:			
Trade payables and other current liabilities		2,063,153,073	2,345,713,264
Due to related parties		1,754,427,184	-
Provision for claims		305,024,535	392,931,941
Unearned revenue		311,130,505	983,240,783
Provision for aircraft redelivery costs		103,823,744	29,175,314
Retirement benefit obligation		68,589,269	86,763,096
Net cash from operations		3,706,633,639	831,372,031
Interest received		186,714	73,018
Net cash from operating activities		3,706,820,353	831,445,049
Cash flows from investing activities			
Increase in deposits		(119,720,834)	(47,130,901)
Acquisitions of property and equipment	6	(57,352,991)	(217,372,286)
Proceeds from disposal of property and equipment	6	21,028,016	-
Net cash used in investing activities		(156,045,809)	(264,503,187)
Cash flow from financing activity			
Payment of lease liabilities	15	(3,352,131,024)	(397,409,086)
Payments of loans payable	7	(114,063,176)	(13,802,448)
Interest paid	7,15	(101,978,702)	(107,787,649)
Net cash used in financing activities		(3,568,172,902)	(518,999,183)
Net (decrease) increase in cash		(17,398,358)	47,942,679
Cash at the beginning of the year		84,042,572	41,855,266
Effect of changes in foreign currency exchange rates		(82,591)	(5,755,373)
Cash at the end of the year	2	66,561,623	84,042,572

(The notes on pages 1 to 47 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Notes to the Financial Statements
As at and for the years ended December 31, 2023 and 2022
(All amounts are shown in Philippine Peso unless otherwise stated)

1 General information

1.1 Business information

Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company" or PAAI) was incorporated in the Philippines on March 25, 1997. The Company started commercial operations on January 1, 2003 and is presently engaged in the general business of airline for the transport of passengers, merchandise, freight and mail.

On July 22, 2002, the Congress of the Philippines enacted Republic Act (R.A.) No. 9183 (the "Act") granting the Company a franchise to establish, operate and maintain domestic and international air transport services. The franchise shall be for a period of 25 years.

In 2017, the Civil Aeronautics Board (CAB) granted the renewal of the Company's Certificate of Public Convenience and Necessity (CPCN) to operate scheduled air transportation services valid from July 28, 2017 until July 27, 2022, and from June 20, 2017 until June 19, 2022 for domestic and international services, respectively. Beginning 2022, the Company provisionally renews its CPCN for domestic and international services due to a requirement pending for compliance under CAB Resolution No. 32 relating to capital stock of international scheduled air transport service providers (Note 10).

On December 19, 2017, AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia (the "Parent Company" or AAI) entered into a Deed of Absolute Sale of Shares to acquire 51.0% ownership interest in the Company from a major shareholder. The sale was executed after securing the approvals from the Congress and President of the Republic of the Philippines.

As at December 31, 2023 and 2022, the Company is 98.8% owned by AAI. AAI is a company incorporated and domiciled in the Philippines.

With the passage of the amendments to the Public Service Act, allowing 100% foreign ownership to airlines in 2022, in 2023, Capital A Berhad's (Capital A) subsidiary AACOM Travel Philippines acquired 60% of the shares of AAI who owns and operates the Company from its previous Filipino shareholder.

Following this change, the Company now regards Capital A as its new Ultimate Parent Company.

The Company's registered office address is Building No. 7233 Diosdado Macapagal International Airport, Civil Aviation Complex Clark Freeport Zone Angeles City, Pampanga, Philippines, while the principal place of business is located at Level 2, Mezzanine Area, Ninoy Aquino International Airport (NAIA) Terminal 3, Pasay City, Philippines.

1.2 Status of operations

For the year ended December 31, 2023, the Company incurred a loss of P4.57 billion (2022 - P7.92 billion) which resulted to accumulated deficit as at December 31, 2023 of P44.49 billion (2022 - P39.92 billion) and capital deficiency of P43.74 billion (2022 - P39.19 billion). In addition, the Company has a negative working capital (current assets less current liabilities) of P42.26 billion as at December 31, 2023 (2022 - P36.53 billion). These conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and may not be able to continue realizing its assets and discharging its liabilities in the normal course of business.

In 2020 and 2021, significant decline in demand for air travel was brought by strict quarantine mandates and various border restrictions worldwide. As such, the Company has implemented changes in its operations and business strategies in order to maximize revenues and manage direct and operating costs in order to meet its cash flows requirements. The Company's recovery plan aims to gradually restore pre-COVID capacities and frequencies, reduce operational costs, open new destinations and offer new products that are anchored on digital transformation.

In 2022, the Company has gradually improved its operating statistics in terms of operational fleet, aircraft utilization, load factor and average price that translated to higher revenues. This was influenced by the relaxation of travel policies in the Philippines and gradual opening of international borders.

In 2023, the Company continued its upward trajectory. The following measures are currently implemented to ensure a sustainable recovery path coming out of the pandemic:

- Fleet restoration

  As at December 31, 2023, the Company is operating 15 aircraft which is the same with last year. The Company has capitalized on Capital A's Maintenance, Repair and Overhaul (MRO)service provider in the region, Asia Digital Engineering (ADE), to maintain the operational fleet. The Company focused on route and network planning vis-a-vis schedule optimization and capacity management to ensure efficient fleet utilization. In terms of aircraft utilization, the Company has efficiently utilized its operating aircrafts at 13.4 hours per day for the year ended December 31, 2023 which is already higher than the pre-pandemic level of 13.3 hours per day.

- Commercial operations resumption

  The relaxation in travel restrictions and quarantine requirements spurred a surge in travel demand. As a result, the Company continues its upward trend in key operating statistics.

  Domestic

  The Company's main focus was to fully restore key strategic Manila routes at pre-pandemic level since this market has the highest profitability. Domestic leisure destinations such as Boracay, Tagbilaran, Puerto Princesa and Iloilo have significantly contributed to the total ticket revenue and overall profitability for the year ended December 31, 2023. Most of the Manila domestic routes have already achieved the pre-pandemic frequencies, with two routes namely Manila-Caticlan and Manila-Tagbilaran even exceeding pre-pandemic levels. Active hubs are Manila and Cebu. New route Manila-Roxas is now operating at a frequency of 3x a week.

  International

  Included in the Company's international priority is to resume key profitable international routes especially flights to China and Taiwan. China, which comprises 25% of the total business, is expected to ramp up due to relaxation of visa restrictions for inbound and outbound travellers to and from the Philippines. With the high, and still increasing demand for air travel to various destinations in Japan, the Company will continue to capitalize on these routes, shifting its international capacity in favor of Japan routes replacing China and Taiwan routes, as necessary in order to maximize revenue opportunities. New routes were launched, Manila-Tokyo and Cebu-Tokyo for international flights.

- Charter flight business and other revenue streams

  The decline in chartered flight revenus is expected as commercial flights already resumed.

  Overall, the cargo business consolidated a total of P409 million for the year ended December 31, 2023 which is a 3% growth from 2022 and 13% higher than 2019. The leading cargo route is Manila-Davao. Other top contributors include Manila-Puerto Princesa, Manila-Cagayan de Oro and Manila-Bacolod.

On the ancillary business which includes baggage, seat selections, fees, food and beverage, insurance, merchandise and duty free products, the Company generated a total of P3.2 billion for the year ended December 31, 2023 which is 78% of pre-pandemic levels. Numerous ancillary marketing and promo initiatives were implemented in order to ensure higher yield and boost take-up rate.

- Working capital management

  The Company's cash management has improved as the Company benefited from the increase of operating fleet and capacities with average daily sales at almost 80% of pre-pandemic level. As a result, the Company is able to meet and fulfil its obligations in light of the renegotiated payment plans with vendors.

  Furthermore, the Company, with the assistance of Capital A, has managed to restructure several aircraft operating leases with lessors (Note 15) for renegotiated lease terms, mainly to extended the lease contract periods and lower lease payment rates. Other suppliers have also granted favorable payment terms and several fuel vendors have granted credit lines. This includes a payment plan for past due accounts together with the current billings. The Company has also religiously paid its monthly and quarterly loan amortization with a local bank without fail.

- Funding and financial support

  Certain shareholders of AAI continue to provide the necessary financial support to enable the Company to meet its financial obligations when they fall due and carry out its business operations. Further, certain shareholders continue to affirm that it will delay calling on the net liabilities due from the Company at least for the next twelve (12) months from December 31, 2023; the forbearance will however change once the Company's financial position and cash flows has improved earlier than the lapse of the undertaking (Notes 17 and 21).

Currently included in its priorities to accelerate growth in the domestic sector outside Manila hub to catch up to competitors' market share and boost its position in the international market is expanding on its existing and highly profitable markets in East Asia, particularly in locations such as Japan, China and Hong Kong, following a regain patronage to these destinations. Also, new routes outside Manila targeting Caticlan will be launched to grow domestic presence. International expansion into East Asia to leverage on the pent-up demand, targeting destinations where markets are familiar with the AirAsia brand. Meanwhile, the China market will be a key factor in the international recovery as the Company position itself into scheduling frequent flights to this location via Manila and Clark hubs.

Aside from the specific actions mentioned in the foregoing, the Company continues to operate and fully adopt AirAsia Group's brand business model. This includes moving towards continuous introduction of new products and services of the brand, utilization of the recently launched AirAsia super app to promote better customer experience and convenience, as well as exploring new destination hubs worldwide. These planned changes in strategies is expected to drive loads through the lowest fare strategy, wider destination reaches and attracting more people to fly from and to the Philippines.

The effective implementation of the new business model is expected to bring favorable results to the Company's business operations, particularly, increased passenger revenues and improved profitability in the long term.

Based on the foregoing, the Company's financial statements were prepared on a going concern basis.

1.3 Approval of the financial statements

These financial statements have been approved and authorized for issuance by the Company's Board of Directors (BOD) on April 13, 2024.

2 Cash

Cash as at December 31 consists of:

	2023	2022
Cash on hand	2,122,179	2,042,656
Cash in bank	64,439,444	81,999,916
	66,561,623	84,042,572

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks for the year ended December 31, 2023 amounted to P186,714 (2022 - P73,018) (Note 13).

3 Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

	Note	2023	2022
Trade receivables			
Third parties		1,736,553,481	1,600,397,507
Less: Allowance for impairment loss		(1,351,460,138)	(1,406,552,846)
		385,093,343	193,844,661
Related parties	17	155,188,306	78,004,960
		540,281,649	271,849,621
Other receivables		33,404,085	17,043,115
		573,685,734	288,892,736

Third party trade receivables are unsecured and non-interest bearing with credit terms ranging from 30 to 60 days. Related party trade receivable are collectible on demand.

Other receivables include advances to employees which are subject to liquidation upon completion of the business transaction.

Movements in allowance for impairment loss on trade receivables with third parties for the years ended December 31 are as follows:

	Note	2023	2022
Beginning of the year		1,406,552,846	1,293,307,245
(Reversal of) provision for impairment loss	12	(55,092,708)	113,245,601
End of the year		1,351,460,138	1,406,552,846

Critical accounting estimates and assumptions: Allowance for impairment loss on trade receivables

The Company uses a provision matrix to calculate expected credit loss (ECL) for trade receivables that are not credit impaired. The provision rates are based on days past due for groupings of various customer types that have similar loss patterns. The provision matrix is initially based on the Company's historically observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (e.g., PHP/USD average foreign exchange rate) is expected to increase over the next year which can lead to an increased number of defaults due to the decrease in PHP's purchasing power, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecasted economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

4 Expendable parts, materials and supplies

Expendable parts, materials, and supplies as at December 31 consist of:

	2023	2022
At cost		
Expendable parts	667,391,707	504,682,706
Inflight inventories	10,888,940	5,248,020
	678,280,647	509,930,726

For the year ended December 31, 2023, the cost of inventories charged to profit or loss as part of repairs and maintenance expenses amounted to P394.8 million (2022 - P192.7 million) (Note 11).

Critical accounting judgment: Determination of net realizable value of expendable parts, materials and supplies

The Company's estimates of the net realizable value of expendable parts, materials and supplies are based on the most reliable evidence (e.g., damage, physical deterioration, technological obsolescence, changes in commodity prices), available at the time the estimates are made of the amount that these assets are expected to be realized.

The net realizable value of expendable parts, materials and supplies is reviewed on a monthly basis to reflect the reasonable valuation of these assets. Expendable parts, materials and supplies identified to be obsolete and unusable is written-off and charged as expense for the period. The carrying value of the expendable parts, materials and supplies at reporting date and the amount and timing of recorded expenses for any period could differ based on the actual experience and changes in judgments or estimates made.

Management has assessed that the net realizable value of inventories is higher than their cost, hence the Company did not recognize any provision for inventory write-down for the years ended December 31, 2023 and 2022.

5 Prepayments and other current assets

Prepayments and other current assets as at December 31 consist of:

	2023	2022
Prepaid maintenance and fuel	230,813,887	365,605,279
Prepaid taxes	43,357,278	20,030,625
Prepaid insurance	28,746,702	6,450,044
Others	37,266,068	79,780,465
	340,183,935	471,866,413

Prepaid maintenance and fuel and prepaid insurance will be recognized as expense either with the passage of time, generally over a period of 12 months, or through use or consumption.

Prepaid taxes mainly include overpayments of income taxes and creditable withholding taxes withheld by third parties arising from sale of services which can be applied against future income tax liabilities.

Others mainly include reservation fee for office spaces within Ninoy Aquino International Airport (NAIA) Terminal 3, advanced payments for short-term rentals and advances for airport charges and regulatory fees.

6 Property and equipment, net

Details of property and equipment, net are as follows:

	Leasehold improvements	Motor vehicles	Office furniture and equipment	Aircraft support machinery and equipment	Right-of-use (ROU) assets (Note 15)	Total
At January 1, 2022						
Cost	109,878,490	65,169,589	108,649,840	869,960,685	18,554,731,671	19,708,390,275
Accumulated depreciation, amortization and impairment	(66,498,702)	(56,413,910)	(83,901,519)	(511,376,040)	(10,840,789,590)	(11,558,979,761)
Net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
For the year ended December 31, 2022						
Opening net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
Additions	26,412,942	-	4,071,277	90,231,163	829,294,580	950,009,962
Lease modification	-	-	-	-	(239,745,449)	(239,745,449)
Retirement/disposal						
Cost	(2,212,848)	-	-	(25,939)	-	(2,238,787)
Accumulated depreciation, amortization and impairment	-	-	-	-	-	-
Reversal of impairment	-	-	-	-	963,100,000	963,100,000
Depreciation and amortization	(43,419,934)	(7,326,490)	(13,179,545)	(111,824,977)	(2,184,699,910)	(2,360,450,856)
Closing net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384
At December 31, 2022						
Cost	134,078,584	65,169,589	112,721,117	960,165,909	19,144,280,802	20,416,416,001
Accumulated depreciation and amortization	(109,918,636)	(63,740,400)	(97,081,064)	(623,201,017)	(12,062,389,500)	(12,956,330,617)
Net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384
For the year ended December 31, 2023						
Opening net carrying value	24,159,948	1,429,189	15,640,053	336,964,892	7,081,891,302	7,460,085,384
Additions	10,958,834	1,023,214	11,344,018	78,433,860	6,052,822,762	6,154,582,688
Lease modification	-	-	-	-	1,402,105,298	1,402,105,298
Retirement/disposal						
Cost	-	-	(80,000)	(47,150,015)	(6,535,932,575)	(6,583,162,590)
Accumulated depreciation and amortization	-	-	8,329	26,124,998	3,951,719,163	3,977,852,490
Depreciation and amortization	(11,419,727)	(1,534,556)	(9,799,936)	(103,278,468)	(2,116,092,600)	(2,242,125,287)
Closing net carrying value	23,699,055	917,847	17,112,464	291,095,267	9,836,513,350	10,169,337,983
At December 31, 2023						
Cost	145,037,418	66,192,803	123,985,135	991,449,754	20,063,276,287	21,389,941,397
Accumulated depreciation and amortization	(121,338,363)	(65,274,956)	(106,872,671)	(700,354,487)	(10,226,762,937)	(11,220,603,414)
Net carrying value	23,699,055	917,847	17,112,464	291,095,267	9,836,513,350	10,169,337,983

Acquisitions of property and equipment as shown in the statements of cash flows for the year ended December 31 were determined as follows:

	Note	2023	2022
Beginning unpaid portion of property and equipment		24,605,541	121,626,445
Acquisitions of property and equipment, excluding ROU assets		101,759,926	120,715,382
Unpaid portion of property and equipment	8	(69,012,476)	(24,605,541)
Paid acquisitions of property and equipment per statements of cash flows		57,352,991	217,372,286

During the year ended December 31, 2023, the Company disposed certain property and equipment for a total consideration of P21,028,016 million (2022 - nil) resulting to loss on disposal amounting to P68,672 (2022 - P2.24 million) (Note 13).

Depreciation and amortization expense charged to profit or loss for the years ended December 31 are as follows:

	Notes	2023	2022
Cost of services	11	2,219,371,068	2,296,524,887
Operating expenses	12	22,754,219	63,925,969
		2,242,125,287	2,360,450,856

Movements in ROU assets for the years ended December 31 follows:

	Aircraft	Engine	Total
At January 1, 2022			
Cost	18,488,905,122	65,826,549	18,554,731,671
Accumulated depreciation and impairment	(10,774,963,041)	(65,826,549)	(10,840,789,590)
Net carrying value	7,713,942,081	-	7,713,942,081
For the year ended December 31, 2022			
Opening net carrying value	7,713,942,081	-	7,713,942,081
Additions	829,294,580	-	829,294,580
Modifications (Note 15)	(239,745,449)	-	(239,745,449)
Reversal of impairment	963,100,000	-	963,100,000
Depreciation	(2,184,699,910)	-	(2,184,699,910)
Closing net carrying value	7,081,891,302	-	7,081,891,302
At December 31, 2022			
Cost	19,078,454,253	65,826,549	19,144,280,802
Accumulated depreciation	(11,996,562,951)	(65,826,549)	(12,062,389,500)
Net carrying value	7,081,891,302	-	7,081,891,302
For the year ended December 31, 2023			
Opening net carrying value	7,081,891,302	-	7,081,891,302
Additions (Note 15)	5,930,210,140	122,612,622	6,052,822,762
Modifications (Note 15)	1,402,105,298	-	1,402,105,298
Retirement/disposal (Note 15)			
Cost	(6,535,932,575)	-	(6,535,932,575)
Accumulated depreciation	3,951,719,163	-	3,951,719,163
Depreciation	(2,112,519,190)	(3,573,410)	(2,116,092,600)
Closing net carrying value	9,717,474,138	119,039,212	9,836,513,350
At December 31, 2023			
Cost	19,874,837,116	188,439,171	20,063,276,287
Accumulated depreciation	(10,157,362,978)	(69,399,959)	(10,226,762,937)
Net carrying value	9,717,474,138	119,039,212	9,836,513,350

During the year ended December 31, 2023, certain aircraft leases were novated from third-party lessors to being sub-leased from a related party. These were considered as lease terminations. Consequently, the Company derecognized the carrying amount of ROU assets and lease liabilities related to the third-party leases resulting to a gain on lease terminations amounting to P138,968,485 (Note 13). The Company then recognized additions to ROU assets and lease liabilities based on the revised aircraft sub-lease agreements with the related party.

Additions to ROU assets for the year ended December 31, 2023 include additions to provision for aircraft redelivery costs amounting to P1,636,667,941 (2022 - P16,711,620) (Note 15).

Collateral equipment

A certain engine under aircraft support machinery and equipment was used as collateral to secure a loan renegotiated by the Company in March 2022 (Note 7). The net carrying amount of this collateral equipment as at December 31, 2023 amounted to P8,949,290 (2022 - P55,741,290).

Impairment of ROU assets

As discussed in Note 1, because of the losses incurred by the Company mainly from the adverse COVID-19 effects, the management has initiated to regularly undertake an impairment assessment review of its main cash generating unit (CGU), which primarily consist of its aircraft ROU assets.

For the years ended December 31, 2023 and 2022, in accordance with Philippine Accounting Standard (PAS) 36, Impairment of Assets. the recoverable amount of the Company's ROU assets was determined using the value-in-use (VIU) calculations. Cash flow projections used in the value-in-use calculations were based on forecasted financials results reviewed and approved by management for the remaining lease term of the entire aircraft fleet. The financial forecasts used in the exercise were also in consideration of the current status of operations, continuing recovery plans, newly opened hubs, both domestic and international, as well as relevant travel policies.

Using the detailed projections of Company's expected financial results from its current fleet for the remaining lease terms, the Company has calculated a recoverable amount of P17.37 billion, which exceeds that net carrying amount of ROU as at December 31, 2022. In addition, the Company continues to register significant increase in its revenue base and expects to continuously sustain this trajectory, especially in passenger income. Further, based on its financial forecasts, the Company expects to register a positive EBITDA and net income by 2024. Consequently, the Company recognized reversal of provision for impairment of its aircraft ROU assets for the year ended December 31, 2022 amounting to P963.10 million.

For the year ended December 31, 2023, undertaking the same impairment assessment exercise, the Company has calculated a recoverable amount of P10.98 billion. Accordingly, no provision for impairment was recognized for the year ended December 31, 2023.

The relevant assumptions used as at December 31 are as follows:

	2023	2022
Discount rate	16%	16%
Terminal growth rate	0%	0%

Discount rate used is based on weighted average cost of capital of comparable companies.

Critical accounting estimates and assumptions: Impairment of ROU assets

The Company assesses at each reporting date whether there is an indication that ROU assets may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. The recoverable amount of right-of-use assets is the greater of the asset's fair value less costs to sell and value-in-use. Determination of impairment of right-of-use assets requires an estimation of the value-in-use of the cash-generating unit (CGU) to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Company uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield, aircraft utilization and fuel costs, among others.

Changes in these judgments and estimates could significantly affect the recoverable value of ROU assets and the amount and timing of recorded impairment provision, as necessary, for any period.

For the year ended December 31, 2023, no provision for impairment was recognized as it continues to determine that recoverable value exceeds the carrying amount of ROU assets. For the year ended December 31, 2022, the Company recognized reversal of ROU impairment amounting to P963.10 million based on the results of management's impairment assessment which resulted to value-in-use, based on management's assessment, exceeded the carrying value of the ROU assets. The increase in the value was supported by the Company's efforts to manage lessors and extended lease terms. Moreover, the market is recovering, thereby increasing further the value-in-use of the ROU assets.

While it is believed that the Company's assumptions are reasonable and appropriate, significant changes in assumptions may materially affect the Company's impairment provision and ROU assets. The sensitivity of the resulting impairment provision is mainly driven by any changes in pre-tax discount rate applied, while holding all assumptions constant.

The sensitivity of the value-in-use to changes in the pre-tax discount rate applied in the cash flow projections as at December 31 is as follows:

	Impact on value-in-use	
Change in pre-tax discount rate	Increase in assumption	Decrease in assumption
2023		
+/-1%	Decrease of P350.09 million	Increase of P368.84 million
2022		
+/-1%	Decrease of P608.29 million	Increase of P645.59 million

When calculating the sensitivity of the value-in-use, the same method (discounted cash flows) has been applied.

Critical accounting judgment: Recoverability of property and equipment

All other components of property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

As of December 31, 2023 and 2022, management believes that the carrying amount of the Company's property and equipment are recoverable.

7 Loans payable

On September 8, 2017, the Company availed of a loan from BDO Unibank, Inc. (BDO) to be used for working capital requirements amounting to $35.0 million (P1.78 billion). Fifty percent (50%) of the loan was payable in 11 equal quarterly installments starting December 2017 and the remaining fifty percent (50%) was payable in lump sum at the end of the contract term on September 8, 2020. The loan was initially subject to 3-month London Interbank Offered Rate (LIBOR) plus margin of 2.5%.

Following various renegotiations, in 2020, the Company was able to extend the maturity date of the outstanding loan to November 19, 2021. The renegotiated loan is subject to 3-month LIBOR plus margin of 4% per annum. In November 2021, the Company was able to further renegotiate the maturity of its BDO loan extending the maturity date to June 30, 2022.

In March 2022, the Company was able to roll-over the same loan instrument with the Company's owned-engine as its additional collateral (Note 6). The renegotiated loan is subject to 3-month Term Secured Overnight Financing Rate (SOFR) plus margin of 4% per annum. The loan will mature June 30, 2025 with quarterly principal repayments and monthly interest payments beginning on September 2022.

The loan with BDO provides for restrictions with respect to, among others, making distribution on its share capital; maintenance of financial ratios; making any material change in the character of its business or engaging in any business operation or activity other than those for which it is presently authorized; decreasing the current ownership interest of AAI; incurring any secured indebtedness; and, extending loans, advances to any corporation, directors, officers and shareholders other than advances in the ordinary course of business.

This BDO credit facility is secured by corporate guarantee of Capital A and the continuing suretyship of AAI (Note 17).

Movements of loans payable as at December 31 are as follows:

	2023	2022
Balance at the beginning of year	1,047,924,325	974,229,767
Settlements	(114,063,176)	(13,802,448)
Foreign exchange effects	(3,319,441)	87,497,006
Balance at the end of year	930,541,708	1,047,924,325

The current and non-current portion of the loans payable at December 31 are as follows:

	2023	2022
Current	317,230,128	113,604,765
Non-current	613,311,580	934,319,560
	930,541,708	1,047,924,325

Movements of accrued interest on loans payable for the years ended December 31 are as follows:

	2023	2022
Balance at the beginning of year	-	1,116,472
Interest expense	94,366,275	59,009,507
Settlements	(94,596,550)	(60,125,979)
Foreign exchange effects	230,275	-
Balance at the end of year	-	-

8 Trade payables and other current liabilities; Provisions for claims

Trade payables and other current liabilities

Trade payables and other current liabilities at December 31 consist of:

	Notes	2023	2022
Trade payables			
Related parties	17	6,399,416,014	6,447,378,373
Third parties		6,931,658,677	6,479,529,052
		13,331,074,691	12,926,907,425
Accrued expenses			
Landing, takeoff and parking		1,964,990,370	864,249,816
Repairs and maintenance		754,077,837	1,168,209,089
Airport ground handling		241,649,184	39,728,981
Accrued interest on lease deferrals	15	56,696,437	18,433,222
Salaries and employee benefits		729,075	6,004,414
Others		42,119,829	34,987,884
		3,060,262,732	2,131,613,406
Payable to government agencies		1,348,310,102	841,217,673
Refunds		724,902,341	747,498,103
Deposits from travel agents		241,270,180	197,241,418
Unpaid capital expenditures	6	69,012,476	24,605,541
Output VAT payable		18,144,436	79,407,205
Other claims		102,331,934	13,113,365
		18,895,308,892	16,961,604,136

Trade payables are unsecured, unguaranteed and non-interest bearing. Payable to third parties have credit terms ranging from 30 to 60 days while payable to related parties are due and demandable.

Deposits from travel agents pertains to cash bond of travel agents. This serves as the travel agents' credit limit and represents the maximum value of tickets that the travel agents are allowed to sell.

Payable to government agencies pertains mostly to withholding taxes which are non-interest bearing and are normally settled the following month.

Refunds mainly consist of scheduled flights that were eventually cancelled by the Company, following some circumstances outside the control of the passenger. Passengers affected by eventual cancellations are provided an option to rebook or refund flight booking payments. Refunds account are those cancelled flights where passengers opted to refund cash via their choice of payment platform. Rebooked flights are recorded as part of "Unearned revenues" in the statement of financial position (Note 22.16).

Provisions for claims

In the normal course of business, the Company has provisions, including those that may arise from suits and claims that are presently being contested. The Company has several pending cases which are likely to continue for some time. In the opinion of management, the ultimate disposition of these amounts will not have any significant effect on the Company's financial position, results of operations and cash flows as at and for the years ended December 31, 2023 and 2022.

The movements in provisions for claims for the years ended December 31 are as follows:

	Note	2023	2022
Beginning of the year		723,038,365	330,106,424
Provision	13	415,062,548	392,931,941
Settlements		(110,038,013)	-
End of the year		1,028,062,900	723,038,365

The disclosure of additional details beyond the present disclosures may seriously prejudice the Company's position. Thus, as allowed by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, only a general description is provided.

Critical accounting estimates and assumptions: Provisions for claims

In the normal course of business, the Company is involved in various legal actions, claims and other contingencies incidental to its ordinary course of business. Provision is based on management's assessment and judgment, in consultation with counsels and advisors, of the likelihood that the settlement of these provisions will be realized considering possible outcomes under various circumstances. While it is believed that the Company's judgment and assessment are reasonable, actual results could differ from those judgment and assessment.

Accordingly, the recorded provision at the end of each reporting period and the amount and timing of recorded expense for any period could be materially affected by actual experience and changes in those judgment and assessment. A change in the estimated amount to be paid in settlement of these provisions would impact the Company's recorded expenses and current liabilities.

9 Equity

The Company's share capital as at December 31, 2023 and 2022 consists of:

	Shares	Amount
Common shares at P1 par value per share		
Authorized	576,078,431	576,078,431
Issued and outstanding	171,078,431	171,078,431
Preferred shares at P1 par value per share		
Authorized, issued and outstanding	423,921,569	423,921,569

The Company's preferred shares are non-voting, participating, convertible at the option of the holder and redeemable at the option of the Company at the issue price or book value thereof, whichever is higher. Dividends are cumulative from the date of subscription thereof and is intended to be payable upon formal declaration by the BOD, and at which time, the related obligation on dividend is recognized in the accounts. As at December 31, 2023 and 2022, the BOD has yet to determine and approve the cumulative preferred dividend rate.

Under CAB Resolution No. 32, international scheduled air transport service providers are required to maintain a capital of not less than P800 million for the renewal of its CPCN. Existing grantees of CPCN are required to comply with the requirement within a period of one (1) year from the effectivity of the resolution in 2018 or upon renewal of its CPCN, whichever comes first. As at December 31, 2023 and 2022, total share capital of the Company amounted to P595 million.

On September 13, 2019, CAB granted the Company's proposed changes in its authorized and outstanding capital stock, endorsement of the proposed transactions to the SEC and the subsequent confirmation of compliance with CAB Resolution No. 32 upon approval by the SEC of the proposed transactions.

On November 19, 2019, the Company's BOD and shareholders approved the conversion of the Company's outstanding liabilities to AAI amounting to P11.97 billion as full consideration for the issuance by the Company of 205 million common shares. This transaction would result to increase AAI's ownership in the Company to 800 million common shares at P1.00 par value per share and would enable the Company to conform to the capitalization requirement of CAB.

On January 31, 2020, the BOD and shareholders of Asiawide Airways Inc. (AWAI) approved the assignment of the Company's payable balance amounting to P753 million to AAI as the new creditor. In consideration for such assignment, AAI extinguished the debt of AWAI to AAI for the same amount.

On June 18, 2020, the Company filed its application to the SEC for the debt to equity restructuring.

On April 21, 2021, the BOD and shareholders of AWAI and AAI approved the revocation of the following:

(i) the assignment by AWAI of its net receivable from the Company amounting to P753 million (AWAI assigned receivable) to AAI (AAI additional receivables);
(ii) the extinguishment of the AWAI's debt to AAI to the extent of an amount equivalent to the AWAI assigned receivables; and
(iii) the application of the AAI additional receivables as subscription payment for AAI's subscriptions to the shares of the Company.

It was further approved by the AAI's BOD and shareholders that the subscription price for the 205,000,000 shares will be amended from P11.97 billion to P11.22 billion.

Subsequent events: Updates on the AirAsia Group's planned restructuring

As at reporting date, the Company did not pursue the 2020 SEC application as described in the foregoing following the revocation of assignment of AWAI receivables to the AAI.

To address the capitalization requirements of the Civil Aeronautics Board (CAB), the Company's planned debt restructuring includes the conversion of the Company's payable to AAI amounting to P10.50 billion in exchange for the issuance of 205,000,000 shares with a par value of P1.00 and a share premium equivalent to P10.295 billion.

On March 11 and March 18, 2024, the Company's BOD and shareholders, respectively, approved the conversion of debts of PAA to AAI, having an aggregate amount of P10.50 billion as full consideration for the issuance by the Company of 205,000,000 common shares.

On March 25, 2024, the Company filed its application to SEC for confirmation of valuation of the 205,000,000 common shares to be issued to AAI in settlement of its liabilities in the amount of P10.50 billion.

On March 26, 2024, the SEC acknowledged the receipt of the Company's application and assigned an examiner to review the same. As at reporting date, this application is still pending review and approval by the SEC.

10 Revenues

Below is the disaggregation of the Company's revenues for the years ended December 31:

	2023	2022
Over time		
Passenger	17,689,943,923	8,126,447,559
Cargo	408,637,364	395,809,263
Other revenues		
Baggage fees	2,214,785,666	976,601,949
Assigned fees	203,995,210	69,970,588
Rebooking, refunds and cancellation fees	170,620,268	33,017,647
Connection fees	26,684,786	9,033,963
Others	459,211,699	55,880,020
	3,075,297,629	1,144,504,167
Point in time		
Inflight meals and merchandise	168,204,283	66,888,927
	21,342,083,199	9,733,649,916

Others pertain mainly to unlimited flight pass, expired credit shell, aircraft advertisements, rental income on lease of a portion of the warehouse and other add-on fees, including insurance, airport service charges and handling fees.

Contract liabilities

Contract liabilities recorded as unearned revenues in the statement of financial position represent collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

The increase in unearned revenues as at December 31, 2023 is consistent with the commercial operations resumptions for both domestic and international flights.

The following table shows the movement analysis of contract liabilities for the years ended December 31:

	2023	2022
At January 1	2,693,214,084	1,709,973,301
Additions during the year	23,606,257,169	11,392,412,054
Recognized as revenue	(23,295,126,664)	(10,409,171,271)
At December 31	3,004,344,589	2,693,214,084

11 Cost of services

Cost of services for the years ended December 31 are as follows:

	Notes	2023	2022
Fuel cost		9,265,417,872	5,911,884,120
Repairs and maintenance	4, 15	5,696,028,034	1,987,148,714
Depreciation and amortization	6	2,219,371,068	2,296,524,887
Salaries and employee benefits		2,038,951,638	1,179,665,483
Landing, take-off and parking		1,383,662,368	522,246,489
Airport ground handling		1,119,780,683	340,518,776
Aircraft rental	15	686,615,477	1,097,054,920
Bus rental	15	56,637,056	31,658,121
Custom duties		9,673,700	8,808,602
Others		433,300,684	270,748,201
		22,909,438,580	13,646,258,313

Landing, take-off and parking consists of amounts paid to airport authorities for landing and taking off at each particular airport. It also includes fees for parking at the terminal apron and other designated parking spaces.

Airport ground handling represents charges for services such as ground coordination, customs clearance application, passenger baggage handling, refueling, shuttle and other ground services.

Others consist mainly of aviation insurance, navigational fees charged for the establishment, operation and maintenance of air navigation systems and facilities, and catering charges for in-flight crews.

12 Operating expenses

Operating expenses for the years ended December 31 are as follows:

	Notes	2023	2022
Marketing expenses			
Commission expenses		351,230,578	50,826,640
Promotion and advertising		57,085,825	118,733,063
		408,316,403	169,559,703
General and administrative expenses			
Outside services	17	417,431,538	163,661,709
Utilities		327,747,601	250,012,816
Other commission expenses		308,680,477	140,299,643
Salaries and employee benefits		162,002,390	166,084,553
Repairs and maintenance		107,262,290	75,814,024
Rental of office and equipment	15	95,651,876	65,162,058
Brand license fee	17, 19	91,168,007	341,115,310
Retirement benefit expense	16	63,761,719	74,451,598
Training and accommodation		41,219,574	17,064,189
Depreciation and amortization	6	22,754,219	63,925,969
Taxes and licenses		5,262,728	12,164,595
(Reversal of) provision for impairment of receivables	3	(55,092,708)	113,245,601
Insurance		-	62,270,465
Others		96,614,164	51,651,275
		1,684,463,875	1,596,923,805
		2,092,780,278	1,766,483,508

13 Finance costs and other income (expenses), net

Finance costs for the years ended December 31 are as follows:

	Notes	2023	2022
Interest expenses on:			
Lease liabilities	15	837,944,116	835,908,831
Lease deferrals	15	45,645,367	28,531,703
Loan payable	7	94,366,275	59,009,507
Retirement benefit obligation	16	27,510,042	16,986,093
Provision for aircraft redelivery	15	103,823,744	12,463,694
Others		119,547,168	39,971,800
		1,228,836,712	992,871,628

Others include late payment fees charged by certain airport authorities.

Other income (expenses), net for the years ended December 31 consists of:

	Notes	2023	2022
Foreign exchange gain (loss), net	21	640,251,913	(2,459,207,064)
Provision for claims	8	(415,062,548)	(392,931,941)
Gain on lease terminations	6, 15	138,968,485	-
Interest income from bank deposits	2	186,714	73,018
Reversal of impairment of right-of-use assets	6	-	963,100,000
Reversal of accruals		-	623,468,810
Others		(46,513,713)	14,078,983
		317,830,851	(1,251,418,194)

In 2022, management reviewed the composition of its outstanding accruals and wrote off certain long outstanding balances which management assessed as no longer representing valid claims against the Company.

Others include collection from scrap sales, sublease of airport terminal space and reversal of deposits from inactive agents.

14 Deposits

Deposits as at December 31 consist of:

	Note	2023	2022
Aircraft and engine lease deposit	15	774,437,244	690,033,369
Refundable deposits		180,337,836	169,775,539
Hangar and office rental	15	44,197,495	22,361,548
Spares and maintenance deposit		12,447,989	13,030,169
		1,011,420,564	895,200,625

Refundable deposits mainly pertain to bonds paid to different Philippine airport authorities for airport charges. These amounts will be refunded at the end of the related contracts.

Spares and maintenance deposits mainly relate to deposits for future fixed asset acquisitions.

15 Leases (the Company as the lessee)

a. Leases

The Company's fleet as at December 31 consists of:

	Note	2023	2022
Airbus A320-200			
Third party lessors		4	14
Related party lessor	17	21	12
		25	26

Passenger aircraft

The Company is a lessee to various non-cancellable leases covering its passenger aircrafts, from both third party and related party principal lessors. The leases have terms ranging from twelve (12) months to fourteen (14) years with renewal options. The Company's existing fleet are with lease terms as provided below:

December 31, 2023	Original lease term (including renewal options)		Restructured	New lease term (after lease restructuring)	
No. of aircrafts	From	To	in 2023	From	To
1	2022	2026	No	2022	2026
1	2022	2026	No	2022	2026
1	2017	2023	Yes	2023	2029
1	2022	2028	No	2022	2028
1	2022	2036	No	2022	2036
1	2019	2025	Yes	2023	2031
1	2019	2025	Yes	2023	2031
1	2019	2025	Yes	2023	2031
1	2019	2025	Yes	2023	2031
1	2019	2026	Yes	2023	2032
1	2020	2026	No	2020	2026
1	2018	2021	No	2018	2021
1	2018	2022	No	2018	2022
1	2018	2021	No	2018	2021
1	2022	2026	No	2022	2026
1	2022	2026	No	2022	2026
1	2021	2031	Yes	2023	2026
1	2021	2031	Yes	2023	2025
1	2021	2031	Yes	2023	2031
1	2021	2031	Yes	2023	2025
1	2021	2027	No	2021	2027
1	2022	2031	No	2022	2031
1	2022	2025	No	2022	2025
1	2021	2029	No	2021	2029
1	2021	2029	No	2021	2029
25					

December 31, 2022	Original lease term (including renewal options)		Restructured	New lease term (after lease restructuring)	
No. of aircrafts	From	To	in 2022	From	To
1	2013	2022	No	2013	2022
1	2013	2022	Yes	2022	2025
1	2021	2029	No	2021	2029
1	2014	2021	No	2014	2021
1	2014	2025	No	2014	2025
1	2014	2026	No	2014	2026
2	2016	2022	No	2016	2022
1	2016	2023	Yes	2021	2029
1	2017	2021	No	2017	2021
1	2017	2022	No	2017	2022
1	2017	2023	Yes	2022	2036
1	2021	2031	No	2021	2031
1	2017	2025	No	2017	2025
2	2021	2031	No	2021	2031
2	2018	2025	No	2018	2025
1	2021	2031	No	2021	2031
1	2018	2026	No	2018	2026
1	2018	2030	No	2018	2030
1	2021	2027	No	2021	2027
1	2019	2025	Yes	2021	2031
1	2019	2028	Yes	2022	2028
2	2022	2026	No	2022	2026
26					

Lease terms are negotiated either on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the required security deposits in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Movements of the Company's lease liabilities as at and for the years ended December 31 are as follows:

	Note	2023	2022
Balance at beginning of the year		17,229,747,607	14,613,030,500
Additions		4,416,154,821	829,294,580
Interest accretion	13	837,944,116	835,908,831
Modifications		1,402,105,298	(239,745,449)
Terminations		(2,723,181,897)	-
Lease payments		(3,352,131,024)	(397,409,086)
Foreign exchange difference		(170,441,581)	1,588,668,231
Balance at end of the year		17,640,197,340	17,229,747,607

Classification of lease liabilities in the statements of financial position as at December 31 are as follows:

	2023	2022
Current	7,920,907,671	7,684,031,107
Non-current	9,719,289,669	9,545,716,500
	17,640,197,340	17,229,747,607

The amount of right-of-use assets recognized in the statement of financial position as at December 31, 2023 amounted to P9.84 billion (2022 - P7.71 billion) (Note 6).

Lease restructuring and modification

On various dates in 2023 and 2022, through and with the assistance of Capital A, the Company has managed to restructure the lease terms of its aircraft operating leases with lessors. In 2023, 3 (2022 - 5) aircraft leases were restructured and among the provisions of the new lease terms includes reduced rental rates and extended lease terms. As such, the Company remeasured the lease liabilities using the Company's incremental borrowing rates at the effective dates of the modification and made corresponding adjustments to the right-of-use assets. In 2023, in addition to the reduced rental rates and extended lease terms, 8 (2022 - nil) aircraft leases were novated from third-party lessors to being sub-leased from a related party. These were considered as lease terminations. Consequently, the Company derecognized the carrying amount of ROU assets and lease liabilities related to the third-party leases resulting to a gain on lease terminations amounting to P138,968,485 (Note 13). The Company then recognized additions to ROU assets and lease liabilities based on the renewed aircraft sub-lease agreements with the related party.

The table presented in the foregoing provides information on the new lease terms following the restructuring.

Lease payment deferrals

On November 19, 2020, the Company's BOD resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes, deferral of rental payments due in various dates in 2020 and 2021 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in December 2020.

On February 2, 2021, the Company's BOD further resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain additional 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes deferral of rental payments due on certain months 2022 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5.75% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in 2021.

There were no lease side letters approved and entered into for the year ended December 31, 2023 and 2022.

For the aircrafts that were granted lease payment deferrals, the provisions in the lease side letter undertaking did not constitute a lease concession and hence, no corresponding gain or loss was recognized in profit of loss. The rental payments not stated in the lease side letter will continue to be due for payment in accordance with the original terms of the lease agreements and interest shall accrue in accordance with the side letters.

Total amount of rent payments due that was deferred as at December 31, 2023, included as part of lease liabilities amounted to P5,686,201,801 (2022 - P1,048,172,445). Movements of the Company's accrued interest on lease deferrals as at and for the years ended December 31 are as follows:

	Notes	2023	2022
Balance at beginning of the year		18,433,222	37,563,189
Interest accretion	13	45,645,367	28,531,703
Payments		(7,382,152)	(47,661,670)
Balance at end of the year	8	56,696,437	18,433,222

The following are the amounts recognized in statements of total comprehensive income for the years ended December 31:

	Notes	2023	2022
Amortization of right-of-use assets	6	2,116,092,600	2,184,699,910
Gain on lease terminations	13	(138,968,485)	-
Interest accretion on lease liability	13	837,944,116	835,908,831
Expenses related to short-term leases and low-value assets	11,12	838,904,409	1,193,875,099
Foreign exchange (gain) loss		(170,441,581)	1,588,668,231
Reversal of impairment of right-of-use asset	6	-	(963,100,000)
		3,483,531,059	4,840,052,071

Short term aircraft and engine leases

In 2023 and 2022, certain aircraft leases and the engine lease expired, pending renewal of its lease agreement. The lease rentals for the periods not covered by the lease term in the renewed and executed contracts for the years ended December 31, 2023 and 2022 are charged to profit or loss within cost of services as aircraft rental (Note 11)

Hangar and office spaces

As at December 31, 2023 and 2022, the Company is in the process of renegotiating lease agreements for its hangar and office space with its lessors. Consequently, monthly rentals for the years ended December 31, 2023 and 2022 are charged to profit or loss as part of operating expenses (Note 12).

Expenses related to short-term leases also include bus rentals. Leases related to low-value assets pertain to small office equipment.

The total cash outflow for leases for the year ended December 31, 2023 amounted to P4,191,035,433 (2022 - P1,591,284,185).

Critical accounting estimates and assumptions: Incremental borrowing rate - leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for entities that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the entity's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's credit rating).

At the date of initial application, the Company used IBR ranging from 4.94% to 5.10% to measure lease liabilities. In 2023, for certain aircrafts that were restructured, the Company used IBR ranging from 8.79% to 10.54% (2022 - 8.79% to 10.99%) to measure the restructured lease liabilities.

b. Provision for aircraft redelivery costs

The Company is contractually required under its lease contracts to restore its leased aircraft based on a pre-agreed return condition at its own cost at the end of the lease term.

The roll forward analysis of the Company's provision for aircraft redelivery costs for the years ended December 31 are as follows:

	Note	2023	2022
Balance at beginning of year		193,577,159	150,444,637
Additions		1,636,667,941	16,711,620
Accretion charged to profit or loss	13	103,823,744	12,463,694
Foreign exchange difference		113,737	13,957,208
		1,934,182,581	193,577,159

During the year, the Company has made actual redelivery of one aircraft. In accordance with the provisions of the aircraft lease contract, the Company is required to undertake relevant repairs and maintenance checks, prior to redelivery, including but not limited to full round C-check, engine performance restoration, engine life-limited parts replacement and other maintenance events. Given the significant cost of redelivery incurred during the year arising from escalated maintenance charges from vendors since the last redelivery made in 2018, additional repairs and overhauls necessary to bring the aircraft to its utmost operating condition, the Company has reassessed its estimation of future redelivery provisions. Hence, increase in provision for aircraft redelivery costs for the year ended December 31, 2023 represents the effect of management's reassessment of the expected redelivery costs after considering the most recent actual costs of redelivery, effects of escalation rates from maintenance, repair and overhaul obtained from service providers, composition of the Company's aircraft fleet, particularly older aircrafts, and expected timing of redelivery dates which are considerably distant from scheduled checks or maintenance intervals. Such re-estimation was accounted for prospectively.

Provision for aircraft redelivery is classified in the statements of financial position as at December 31 as follows:

	2023	2022
Current	39,241,325	39,241,325
Non-current	1,894,941,256	154,335,834
	1,934,182,581	193,577,159

Critical accounting estimates and assumptions: Provision for aircraft redelivery costs

Provision for aircrafts redelivery costs are accrued based on estimates made by the Company's engineers and historical cost incurred, which include estimates of future redelivery costs, overhaul and restoration costs. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, the actual redelivery costs will ultimately depend on the aircraft's utilization and market condition at the time of redelivery.

The Company considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimates and assumptions considering that the aircraft utilization and market conditions of the aircrafts vary. However, it is reasonably possible, on the basis of existing knowledge, that a change in the factors mentioned above would impact the recorded provisions for aircraft and redelivery costs.

c. Refundable deposits

Deposits related to the foregoing leases as at December 31 are as follows:

	Note	2023	2022
Aircraft leases	14	774,437,244	690,033,369
Hangar and office space	14	44,197,495	22,361,548
		818,634,739	712,394,917

16 Retirement benefit obligation

The Company has an unfunded defined benefit pension plan covering all of its employees based on years of service and compensation on the last year of employment.

The Company's retirement plan provides for the following benefits based on the final monthly salary for every year of service:

		Minimum requirement (in years)	
Retirement plan	Rate of final monthly salary	Age	Service period
Normal	120%	60	5
Early	100%	50	10
Late	125%	60	Case to case basis

This retirement plan meets the minimum retirement benefit requirements as specified under R.A. No. 7641, *The Retirement Pay Law*.

Under the existing regulatory framework, R.A. No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of the retirement benefit expense charged to profit or loss for the years ended December 31 are as follows:

	Notes	2023	2022
Operating expenses			
Current service cost	12	63,761,719	74,451,598
Interest expense			
Interest cost	13	27,510,042	16,986,093
		91,271,761	91,437,691

The movements in the present value of defined benefit obligation for the year ended December 31 are as follows:

	2023	2022
Balance at beginning of year	386,920,418	340,402,674
Current service cost	63,761,719	74,451,598
Interest cost	27,510,042	16,986,093
Benefits paid	(22,682,492)	(4,674,595)
Remeasurement (gain) loss		
Changes in financial assumptions	(22,982,508)	(106,465,056)
Experience adjustments	527,646	66,219,704
Balances at end of year	433,054,825	386,920,418

The movement in the reserve for remeasurements on retirement benefit obligation for the years ended December 31 is as follows:

	2023	2022
Balances at beginning of year	134,452,824	94,207,472
Remeasurement gain	22,454,862	40,245,352
	156,907,686	134,452,824

The principal actuarial assumptions used for the year ended December 31 are as follows:

	2023	2022
Discount rate	6.06%	7.11%
Salary increase rate per annum	3.00%	5.00%

- Discount rate - This is determined by reference to market yields at the end of the reporting period based on PHP BVAL reference rates as at December 31, 2023 and 2022.

- Salary increase rate - This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period when the benefits are expected to be paid.

Shown below are the maturity analyses of undiscounted benefit payments as at December 31:

	2023	2022
Less than 1 year	54,310,318	25,108,551
More than 1 year and up to 5 years	64,166,468	85,878,525
More than 5 years and up to 10 years	145,464,648	154,039,145
More than 10 years and up to 15 years	284,648,686	352,039,428
More than 15 years and up to 20 years	977,414,505	706,976,981
More than 20 years	5,927,568,860	9,438,178,140

The weighted average duration of the defined benefit obligation as at December 31, 2023 is 21 years (2022 - 22 years).

Critical accounting estimates and assumptions: Principal assumptions for estimation of retirement benefit obligation

The determination of the Company's retirement benefit obligation and retirement benefits are dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate at the end of each year. Discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Company considers the interest rates on Philippine government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligation. Actual results that differ from the Company's assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement benefit expense and obligation.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions as at December 31 are as follows:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
2023			
Discount rate	+/-1%	(14,368,967)	24,976,697
Salary increase rate	+/-1%	24,688,359	(14,351,172)
2022			
Discount rate	+/-1%	(28,645,100)	39,214,479
Salary increase rate	+/-1%	38,405,521	(28,608,031)

The foregoing 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 periods) has been applied as when calculating the retirement benefit obligation recognized within the statement of financial position.

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

17 Related party transactions and balances

The Company the following transactions and balances with its related parties as at and for the years ended December 31:

	Transactions		
	2023	2022	Terms and conditions
(a) Aircraft lease agreements *Entities under common control*	4,255,955,914	1,081,352,649	The Company entered into various lease agreements with Merah Putih 2, Inc. (MP2) and Red Lotus Aviation Limited, entities under common control, for the lease of the Company's passenger aircrafts. In 2018, MP2 started assigning its rights on its lease agreements with the Company to a third-party lessor. However, in 2023 and 2022 as part of lease restructuring, some of the aircrafts transferred to the third-party lessors reverted back to related party lessors. Aircraft leases are accounted for under PFRS 16 and are recognized as right-of use assets (and are being amortized) and lease liabilities (Note 15).
(b) Collections made by (on behalf of) related parties *Entities under common control*	5,470,668,614	3,089,918,234	These are proceeds from passenger ticket sales collected by related parties on behalf of the Company or vice versa. On a monthly basis, amounts are reconciled. Ticket sales pertaining to the Company are recognized as revenue once lifted and a related receivable from related parties is recorded. Collections made by the Company on behalf of related parties are recorded as liability upon receipt, hence no profit or loss impact.

	Transactions 2023	Transactions 2022	Terms and conditions
(c) Intercompany charges from related parties *Entities under common control*	298,309,693	212,771,278	These relate to operating expenses incurred by related parties on behalf of Company. These charges mainly consist of chargebacks for airport ground handling in cross countries, cargo handling fees, consumables and software maintenance and IT costs among others. These are billed to the Company at cost.
(d) Shared service agreement *Entity under common control*	209,421,994	51,165,281	The Company has a service agreement with AirAsia SEA Bhd. (AA SEA, formerly AirAsia Global Shared Services Sdn Bhd) to provide finance and accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services. These are charged to profit of loss as part of outside services. (Note 12)
(e) Brand licensing agreement *Entity under common control*	91,168,007	341,115,310	Please see related discussions in Note 19.
(f) Maintenance service contract *Entity under common control*	690,682,507	219,836,696	The Company has an existing contract with ADE to be one of its MRO provider to perform aircraft checks and maintenance. In addition, ADE also provide aircraft spares and consumables to the Company. These are charged to profit of loss as part of repairs and maintenance within cost of services (Notes 11).
(g) Marketing costs *Entity under common control*	148,666,331	58,208,801	These pertain to marketing costs charged by AirAsia Com Travel Sdn Bhd (AACOM) which is AirAsia Group's online distributor and marketing arm. AACOM provides marketing, advertising, sales and promotional activities for the AirAsia Group and owns and operates the online platform, airasia.com website. These are charged to profit or loss as part of commission expenses under marketing expenses (Note 12).

	Transactions		
	2023	2022	Terms and conditions
(h) Payments made on behalf of the Company *Entities under common control*	3,294,503,866	417,731,015	These are payments by related parties on behalf of the Company for operational expenses including but not limited to aircraft lease payments, engineering costs, marketing expenses and other group-related expenses, as well as refunds refunds made by related parties on behalf of the Company.
(i) Key management compensation			Key management compensation covering salaries and wages and other short-term benefits are determined based on contract of employment and payable in accordance with the Company's payroll process. Key management personnel are also entitled to retirement benefits.
Salaries	56,260,751	62,596,500	
Other short-term employee benefits	18,505,517	11,700,000	
Retirement benefits	7,025,628	31,097,835	
	81,791,896	105,394,335	

As at December 31, the Company's outstanding related party balances in connection with the aforementioned transactions are as follows:

	Ref	2023	2022	Terms and conditions
Trade and other receivables *Entities under common control (Note 3)*	b	155,188,306	78,004,960	These are unsecured, unguaranteed, non-interest bearing, and collectible on demand.
Due from a related party *Parent company*		333,786	1,334,214,149 -	These are amounts paid by the Company in prior years on behalf of the Parent Company. These are unsecured, unguaranteed, non-interest bearing, and collectible on demand.
Trade and other payables *Entities under common control*	a,b, c,	6,174,105,986	5,537,098,118	These are unsecured, unguaranteed, non-interest bearing, with terms of 30 to 60 days (Note 8). In 2023, certain related parties affirmed that they will exercise restraint from calling on the net liabilities due from the Company until December 31, 2024. This restraint will however change once the Company's financial position has improved (Note 1).
Parent company	d,e, f, g, h	225,310,028	910,280,255	
		6,399,416,014	6,447,378,373	

	Ref	2023	2022	Terms and conditions
Due to related parties				These are advances by related parties in prior years. These are unsecured, unguaranteed, non-interest bearing, and payable on demand.
Parent company		10,323,849,512	11,000,199,599	
Entities under common control		2,390,941,671	-	
		12,714,791,183	11,000,199,599	

Suretyship and guarantees

There are no collaterals held or guarantees issued by the Company with respect to related party transactions and balances. AAI continues to provide suretyship as security for the Company's credit line facility with BDO which is also secured by corporate guarantee of Capital A (Note 7).

As at December 31, 2023 and 2022, no obligations have been incurred by the aforementioned related parties in relation to this agreement.

Service agreement

In 2014, the Company entered into a service agreement with AA SEA for finance, accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services.

The Service Agreement is effective for a period of three (3) years and may be terminated by either party for any material breach, in the event that the Company terminates its operations, or if AA SEA is not able to provide the agreed services. As at December 31, 2022, the Company is in the process of renewing the terms of this service agreement with the related party, but intends to renew for another three (3) years. Subsequently, in 2023, the Service Agreement was extended for another period of five (5) years until December 31, 2028. Fees charged by AA SEA are based on actual cost of manpower required plus a certain mark-up. These are included in operating expenses as part of outside services account in the statement of total comprehensive income.

Critical accounting judgment: Recoverability of amounts due from related parties

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The determination of ECL is initially based on the Company's historically observed default rates adjusted to forward looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed. As at December 31, 2023 and 2022, management believes that the amounts due from related parties are recoverable.

18 Income taxes

There is no provision for current income tax recognized for the years ended December 31, 2023 and 2022 following the Company's gross loss and net loss positions.

The reconciliation of provision for income tax computed at the statutory income tax rate for the years ended December 31 to the income tax expense as shown in the statements of comprehensive income follows:

	2023	2022
Income tax benefit at statutory rate of 25%	(1,142,785,380)	(1,980,845,432)
Adjustments for		
Movement in unrecognized deferred income tax (DIT) assets	286,446,300	238,612,589
Tax expense from unrecognized DIT asset on NOLCO	856,376,423	1,742,247,446
Non-deductible expenses	9,336	3,651
Interest income subject to final tax	(46,679)	(18,254)
	-	-

DIT assets are determined using income tax rates in the period the temporary differences, NOLCO and MCIT are expected to be recovered or settled. Unrecognized DIT assets (liabilities), net at December 31 are as follows:

	Notes	2023	2022
NOLCO		18,103,159,600	14,677,653,907
Unrealized foreign exchange loss		2,065,452,378	2,484,282,772
Leases	15	1,213,529,585	1,611,623,892
Allowance for doubtful accounts	3	1,351,460,138	1,406,552,846
Provision for claims	8	601,539,859	392,931,941
Retirement benefit obligation	16	433,054,825	386,920,418
Provision for aircraft redelivery costs	15	1,934,182,581	193,577,159
		25,702,378,966	21,153,542,935
Tax rate		25%	25%
Unrecognized DIT assets		6,425,594,742	5,288,385,734

Movement of unrecognized DIT assets charged to other comprehensive income for the years ended December 31 and therefore not forming part of the reconciliation above follows:

	Note	2023	2022
Remeasurement gain on retirement obligation	16	22,454,862	40,245,352
Tax rate		25%	25%
Tax effect		5,613,716	10,061,338

In compliance with the Tax Reform Act (the "Act") of 1997, NOLCO for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss.

Pursuant to Section 4 of Bayanihan II and as implemented under RR 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

Details of the Company's NOLCO at December 31 are as follows:

Year loss was incurred	Year of expiration	2023	2022
2020	2025	5,979,617,005	5,979,617,005
2021	2026	1,729,047,119	1,729,047,119
2022	2025	6,968,989,783	6,968,989,783
2023	2026	3,425,505,693	-
		18,103,159,600	14,677,653,907
Tax rate		25%	25%
Unrecognized DIT asset on NOLCO		4,525,789,900	3,669,413,477

In compliance with the Act, the Company shall pay the greater of MCIT, which is 1% of gross income as defined under the Act, and the normal income tax. Any excess of MCIT over the normal income tax shall be carried forward for the next three consecutive taxable years immediately following the period such MCIT was paid.

MCIT paid in taxable year 2019 amounting to P95,091,782 was not utilized as deduction against any resulting income tax liabilities and has expired as at December 31, 2022. Similarly, there are no resulting MCIT liabilities for the years ended December 31, 2023 and 2022 due to the Company's gross loss position.

Critical accounting judgement: Determination of current and deferred income taxes

Significant judgment is required in determining the income tax expense recognized in profit or loss. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The income tax expense is determined based on assessment income and expense are taxable and deductible, respectively. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax and related liability in the period in which such determination is made.

Realization of the future tax benefit related to DIT assets is dependent on the Company's ability to generate future taxable income during the periods in which these are expected to be recovered. Management has considered these factors in reaching a conclusion to not recognize any of its DIT assets in the statement of financial position.

19 Commitments

Brand License Agreement

On December 16, 2010, AirAsia Berhad ("AAB") (Licensor) and AAI (Licensee) entered into a Brand License Agreement (BLA). The BLA provides the Licensee a non-exclusive and non-assignable license to reproduce and use the AirAsia Brand: (a) in and for the purpose of Business Operations; (b) under the Permitted Name (including to adopt it as the Licensee's corporate name for the duration of the BLA); (c) in accordance with the AirAsia Branding Guidelines; and (d) in and for the purpose of Marketing Communications.

Pursuant to the BLA, the Licensee shall comply at all times with the recommendations made by the Licensor in respect of the use of the AirAsia Brand. The Licensee shall also use the AirAsia brand in accordance with all mandatory standards, specifications and operating procedures and other obligations contained in the Licensor's procedures manual, subject to applicable laws. The BLA provides that nothing in the agreement shall be construed to give control over the services and licensed flights to the Licensor. The Licensee shall have the technical and operational control of the aircraft used for the business operations and shall comply with all applicable laws governing such activity, including, as a minimum, those specified by the relevant competent authorities, and shall have the final authority concerning the operation, maintenance and safety of the aircraft and its passengers and crew.

The BOD of AAI has the power to amend and/or revise the BLA upon agreement with the Licensor under Clause 27.1 of the BLA.

On January 1, 2013, AAB and AAI entered into an addendum to the BLA wherein AAB granted AAI a limited authority to sub-license the AirAsia Brand to the Company for a period of six (6) months effective from September 26, 2013, subject to renewal option.

On January 4, 2017, the Company, AAB and AAI entered into an Amendment and Extension Agreement of the BLA. Amendments to the 2010 BLA includes the following:

- The BLA was amended to include the Company as a Licensee
- Ratification of the effectivity of the BLA which was extended for another five (5)-year term from
- December 16, 2015 to December 15, 2020; and,
- The Company and AAI have undertaken to comply at all times, insofar as feasible and permissible under the laws of the Philippines, with the recommendations made by AAB under the BLA.

On May 2, 2019, an amendment was executed which provided for the effectivity of the BLA for five (5) years from January 2019; and automatic extension for five (5) years by mutual agreement by AAB and the Company.

Further in 2021, AAB recalibrated the BLA charge rates across the entities in using the AirAsia Brand and reduced the license fee equivalent to 0.35% (2020 - 1.75%) of revenue per annum. The Company shall also pay the Licensor additional marketing cost as may be agreed between the parties and allocated as Licensee's contribution.

In 2022, the AAB reverted the license fee rate from 0.35% to 1.75%, with retrospective effect from 2020. The Company will still be liable to settle any marketing costs that may be agreed between the parties and allocated as Licensee's contribution. In addition, AA SEA management fees will be reduced to minimal coverage as a result of this change.

In Q2 2023, pursuant to the Master Brand Licensing Agreement ("MBLA") entered into between AAB and AirAsia Aviation Group Limited ("AAGL"), AAB has granted AAGL the exclusive right to use the trade name and livery of the AirAsia Brand for AAGL's aviation related business, including the right to sub-license such right to AAGL's Affiliates, in accordance with the terms of the MBLA.

The license fee rate being charged by AAGL to PAA is 1.2% of revenue. However, AAGL granted a discount in the 2nd half of 2023 resulting to brand license fees recharges for the year ended December 31, 2023 amounting to P91.2 million (2022 - P341.1 million) (Notes 12 and 17).

20 Critical accounting estimates, assumptions and judgments

Estimates, assumptions and judgments 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.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

20.1 Critical accounting estimates and assumptions

- Allowance for impairment loss on trade receivables (Note 3)
- Impairment of ROU assets (Note 6)
- Provisions for claims (Note 8)
- Provision for aircraft redelivery costs (Note 15)
- Incremental borrowing rate - leases (Note 15)
- Principal assumptions for estimation of retirement benefit obligation (Note 16)

20.2 Critical judgment in applying the Company's accounting policies

- Assessment of the Company's ability to continue as a going concern (Note 1)
- Determination of net realizable value of expendable parts, materials and supplies (Note 4)
- Recoverability of property and equipment (Note 6)
- Recoverability of amounts due from related parties (Note 17)
- Determination of current and deferred income taxes (Note 18)
- Determination of functional currency (Note 21)

21 Financial risk and capital management

21.1 Financial risk factors

The Company's principal financial instruments comprise of cash, trade and other receivables, due from a related party, refundable deposits, trade payable and other current liabilities (excluding amounts payable to government agencies, output VAT and agent deposits), lease liabilities, provision for aircraft redelivery costs and loans payable. The main purpose of these financial instruments is to finance the Company's operations.

The Company is exposed to a variety of financial risks: credit risk, liquidity risk and market risks (particularly foreign exchange risk and interest rate risk). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company has no significant financial assets and liabilities exposed to other market risks such as price risk.

Financial risk management is carried out by a Company's local finance team under policies approved by the BOD and its shareholders. These policies focus on actively securing the Company's short to medium term cash flows by minimizing the exposure to financial markets. The Company does not engage in the trading of financial assets for speculative purposes.

21.2 Components of the Company's financial assets and liabilities

Details of the Company's financial assets at amortized cost as at December 31 are as follows:

	Notes	2023	2022
Cash	2	66,561,623	84,042,572
Trade and other receivables	3	1,891,741,787	1,678,402,467
Due from related parties	17	333,786	1,334,214,149
Deposits	14	998,972,575	882,170,456
		2,957,609,771	3,978,829,644

Trade and other receivables as at December 31, 2023 are presented gross of allowance for impairment of receivables amounting P1,351,460,138 (2022 - P1,406,552,846) and exclude other receivables which consist mainly of advances to employees which are subject to liquidation amounting to P33,404,085 (2022 - P17,043,115) (Note 3).

Spares and maintenance deposit as at December 31, 2023 amounting to P12,447,989 (2022 - P13,030,169) is considered non-financial asset.

Details of the Company's financial liabilities at amortized costs as at December 31 are as follows:

	Notes	2023	2022
Trade and other payables	8	17,287,584,174	15,843,737,840
Due to related parties	17	12,714,791,183	11,000,199,599
Loans payable	7	930,541,708	1,047,924,325
Lease liabilities	15	17,640,197,340	17,229,747,607
Provision for aircraft redelivery costs	15	1,934,182,581	193,577,159
		50,507,296,986	45,315,186,530

Trade and other payables presented above exclude the following non-financial liabilities as at December 31:

	Note	2023	2022
Payable to government agencies		1,348,310,102	841,217,673
Deposits from travel agents		241,270,180	197,241,418
Output VAT payable		18,144,436	79,407,205
	8	1,607,724,718	1,117,866,296

Provisions for claims as at December 31, 2023 and 2022 are considered non-financial liabilities (Note 8).

21.3 Credit risk

Credit risk refers to the risk that a counterparty will cause a financial loss to the Company by failing to discharge an obligation. Significant changes in the economy, that may represent a concentration in the Company's business, could result in losses that are different from those provided for at reporting dates.

Credit risk arises from cash deposits with banks, as well as credit exposure on trade receivables from a related party that are due on demand. The Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

Provision for impairment of financial assets are determined using ECL. A credit loss is the difference between the contractual cash flows to which the Company is entitled and the cash flows expected by the Company.

The Company has the following financial assets as at December 31 where the expected credit loss model has been applied:

Class of financial assets	Gross carrying amount	Allowance provided	Net carrying amount	Internal credit rating	Basis for recognition of ECL
2023					
Cash in banks	64,439,444	-	64,439,444	Performing	12 - month ECL
Trade receivables					
Stage 1	540,281,649	-	540,281,649	Performing	Lifetime ECL
Stage 3	1,351,460,138	(1,351,460,138)	-	Credit- impaired	Full provision
Due from a related party					
Stage 1	333,786	-	333,786	Performing	12 - month ECL
Deposits	998,972,575	-	998,972,575	Performing	12 - month ECL
	2,955,487,592	(1,351,460,138)	1,604,027,454		
2022					
Cash in banks	81,999,916	-	81,999,916	Performing	12 - month ECL
Trade receivables					
Stage 1	271,849,621	-	271,849,621	Performing	Lifetime ECL
Stage 3	1,406,552,846	(1,406,552,846)	-	Credit-impaired	Full provision
Due from a related party					
Stage 1	1,334,214,149	-	1,334,214,149	Performing	12 - month ECL
Deposits	882,170,456	-	882,170,456	Performing	12 - month ECL
	3,976,786,988	(1,406,552,846)	2,570,234,142		

Credit quality of the Company's financial assets

a. Cash in banks

To minimize credit risk exposure from cash in banks, the Company maintains cash deposits in reputable banks. For balances with banks and financial institutions, credit risk is managed in accordance with the Company's policy. Counterparty limits are reviewed and approved by the Company's BOD and are updated when necessary. Cash are placed in various local banks that have good reputation and low probability of insolvency.

Amounts deposited in these banks as at December 31 are as follows:

	2023	2022
Universal	34,487,938	67,322,098
Commercial	29,951,506	14,677,818
	64,439,444	81,999,916

The remaining balance of cash as presented in the statements of financial position as at December 31, 2023 amounting to P2,122,179 (2022 - P2,042,656), represent cash on hand, which is not exposed to credit risk.

b. Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit quality of trade and other receivables are further classified and assessed by reference to historical information about each counterparty's historical default rates). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Company's historically observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Stage 1 - Customer balances without history of default and assessed to be fully recoverable.

Stage 2 - Customers with some defaults in the past. All defaults were fully recovered.

Stage 3 - Individual assessed customer with defaults and which the Company no longer expects to recover the balance despite its collection efforts. Loss rates applied for outstanding amounts in this stage is 100%.

c. Due from a related party

Due from a related party arise mainly from advances and payments made by the Company on behalf of its related party. These collectible on demand and therefore, expected credit losses are based on the assumption that repayment of balances outstanding are demanded at the reporting date.

Based on assessment of qualitative and quantitative factors that are indicative of the risk of default, including but not limited to, availability of accessible highly liquid asset and internal and external funding of the related party, Company has assessed that the outstanding balances are exposed low credit risk. Expected credit losses on these balances have therefore been assessed to be insignificant.

d. Deposits

Deposits that are neither past due nor impaired consist primarily of amounts related to the Company's aircraft leases which are fully collectible at the end of the lease term.

None of the financial assets that are fully performing has been renegotiated as at December 31, 2023 and 2022.

21.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity risk management implies maintaining sufficient cash, timely collection of receivables from customers, 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 its underlying business, the Company aims to maintain flexibility in funding by keeping track of daily cash sales collections and maintaining committed credit lines available with local banks. The Company also obtains funding from its shareholders as well as other third-party banking institutions, as necessary, to finance its operations and working capital requirements.

The tables below analyze the Company's financial liabilities and financial assets held to manage liquidity into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

	Due and demandable	Due within one year	Within 1 to 5 years	Later than 5 years	Total
2023					
Trade and other payables	15,400,527,543	1,887,056,631	-	-	17,287,584,174
Due to related parties	12,714,791,183	-	-	-	12,714,791,183
Loans payable	-	317,230,128	613,311,580	-	930,541,708
Lease liabilities, gross	5,686,201,801	3,024,586,770	7,810,316,108	4,106,685,355	20,627,790,034
Provision for aircraft redelivery costs	-	39,241,325	1,038,709,932	856,231,324	1,934,182,581
Future interest payable on loans	-	69,419,760	24,361,768	-	93,781,528
	33,801,520,527	5,337,534,614	9,486,699,388	4,962,916,679	53,588,671,208
2022					
Trade and other payables	14,567,191,735	1,276,546,105	-	-	15,843,737,840
Due to related party	11,000,199,599	-	-	-	11,000,199,599
Loans payable	-	113,604,765	934,319,560	-	1,047,924,325
Lease liabilities, gross	5,081,569,311	3,497,310,709	9,316,924,920	3,565,962,184	21,461,767,124
Provision for aircraft redelivery costs	-	39,241,325	154,335,834	-	193,577,159
Future interest payable on loans	-	57,381,843	61,659,522	-	119,041,365
	30,648,960,645	4,984,084,747	10,467,239,836	3,565,962,184	49,666,247,412

The amounts disclosed are the contractual undiscounted cash flows. Amounts due within twelve months equal their carrying balances, as the impact of discounting is not significant.

21.5 Market risk

a) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company closely monitors changes in foreign exchange rates and records any exchange gains or losses in profit or loss. Most of the Company's transactions are carried out in Philippine Peso. Exposures to currency exchange rates arise from the Company's overseas purchases, which are primarily denominated in United States (US) Dollar, Chinese Yuan (CNY) and Korean Won (KRW).

The Company manages its foreign currency exchange risk through minimizing transactions in foreign currency and maintaining sufficient cash in foreign currency to cover its maturing obligations denominated in foreign currency.

The Company's foreign currency denominated monetary assets and liabilities as of December 31 are as follows:

	2023			2022		
	USD	CNY	KRW	USD	CNY	KRW
Cash	50,502	292,410	475,571,459	140,702	993,329	84,466,581
Trade and other receivables	22,747,669	9,607,894	2,431,061,501	23,022,139	4,326,818	2,553,036,420
Deposits	14,529,960	6,200,000	490,068,667	12,926,876	6,200,000	490,068,667
	37,328,131	15,807,894	3,396,701,627	36,089,717	11,520,147	3,127,571,668
Trade and other payables	(224,379,873)	(5,471,006)	(1,438,486,680)	(247,505,161)	(55,217,858)	(723,955,985)
Due related parties	(157,380,993)	-	-	(114,216,000)	-	-
Loans payable	(16,800,000)	-	-	(18,842,727)	-	-
Lease liabilities	(317,441,017)	-	-	(309,831,822)	-	-
Provision for aircraft redelivery costs	(34,211,269)	-	-	(3,709,496)	-	-
	(750,213,152)	(5,471,006)	(1,438,486,680)	(694,105,206)	(55,217,858)	(723,955,985)
Net foreign currency assets (liabilities)	(712,885,021)	10,336,888	1,958,214,947	(658,015,489)	(43,697,711)	2,403,615,683
Exchange rates at December 31	55.57	7.81	0.04	55.61	8.07	0.04
Philippine Peso equivalent	(39,615,020,617)	80,731,095	78,328,598	(36,592,241,343)	(352,640,528)	96,144,627

Details of foreign exchange gain (loss) charged to profit or loss for the years ended December 31 are as follows:

	Note	2023	2022
Realized foreign exchange gain		221,421,519	1,027,511,532
Unrealized foreign exchange gain (loss)		418,830,394	(2,484,282,772)
	13	640,251,913	(1,456,771,240)

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's loss before tax as at December 31:

Increase/decrease in foreign exchange rates	USD	CNY	KRW
2023			
+0.45%	(178,267,593)	373,567	352,479
-0.45%	178,267,593	(373,567)	(352,479)
2022			
+0.55%	(107,321,472)	38,464	(215,001)
-0.55%	107,321,472	(38,464)	215,001

The reasonable possible changes in foreign exchange rates in 2023 and 2022 used in the sensitivity analyses were determined based on average movement in the monthly exchange rates during the past 12 months from reporting dates.

Critical accounting judgment: Determination of functional currency

The Company's booking revenues are in various currencies. Bank loans and certain costs, including fuel, repairs and leases are incurred in US$, while some costs and expenses (e.g., salaries and wages) are in Philippine Peso. PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Company's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company.

In making this judgment, the Company considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained

Management determined that Philippine Peso is the functional currency for the Company, after considering the criteria stated in PAS 21.

b) *Interest rate risks*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to its loans payable with floating and/or fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

As at December 31, 2023 and 2022, the Company's loans payable is subject to floating interest rate. If interest rates increase/decrease by 100 basis points (all other variables held constant), loss before income tax would have been P9.31 million higher / lower (2022 - P10.48 million higher/lower).

21.6 Fair value estimation

As at December 31, 2023 and 2022, the carrying amounts of the Company's cash, trade and other receivables, due from related parties, trade payables and other current liabilities and due to a related party approximate their fair values due to the short-term nature of these financial instruments. The fair value of the Company's long term financial assets and liabilities also approximate its carrying values as the nominal interest rates approximate market interest rates.

21.7 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital (Note 1). In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

The Company is subject to externally imposed capital requirements (Note 9).

Total capital being managed by the Company is equal to the total capital deficiency as shown in the statements of financial position excluding reserve for remeasurements on retirement benefit obligation.

22 Summary of material accounting policy information

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

22.1 Basis of preparation

These financial statements of the Company have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations of the Standing Interpretations Committee (SIC), International Financial Reporting Interpretations Committee (IFRIC) and Philippine Interpretations Committee (PIC), which have been approved by the Financial and Sustainability Reporting Standards Council (FSRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost basis.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 20.

22.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

The Company has applied the following amendments for the first time for its annual reporting period commencing January 1, 2023:

- *Amendments to PAS 1 and PFRS Practice Statement 2 - Disclosure of Accounting Policies*

The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the PFRS Practice Statement 2 *Making Materiality Judgments* was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The effects of adoption of amendments to PAS 1 and PFRS 2 Practice Statement 2 as at January 1, 2023 are considered in the Summary of material accounting policies (Note 22) to this financial statements.

Other amendments and improvements to the standards effective January 1, 2023 are not considered relevant to the Company.

(b) New and amended standards not yet adopted by the Company

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for January 1, 2024 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

22.3 Financial assets

22.3.1 Classification

The Company classifies its financial assets in the following measurement categories: (a) financial assets at fair value (through OCI or through profit or loss); and (b) financial assets at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Company did not hold financial assets at fair value (through OCI or through profit or loss) during and at the end of December 31, 2023 and 2022.

Financial assets at amortized cost are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

The Company's financial assets at amortized cost include cash, trade and other receivables, due from a related party and refundable deposits (Note 21.2).

22.3.2 Initial recognition, measurement and derecognition

At initial recognition, the Company measures a financial asset its financial assets at amortized cost at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is recognized using the effective interest rate method.

Financial assets at amortized cost are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in the statement of total comprehensive income and presented in other income (expenses).

22.3.3 Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to:

- 12-month expected credit losses (ECL) - these are ECL that result from default events that are possible within 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECL - these are ECL that result from all possible default events over the expected life of a financial instrument or contract asset.

(a) General approach

The Company applies the general approach to provide for ECL on its financial assets. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECL at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 180 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Company is exposed to credit risk.

(b) Measurement of ECL

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

(c) Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable date:

- significant financial difficulty of the counterparty;
- a breach of contract such as actual default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

22.3.4 Write-off

The gross carrying amount of a financial asset is written-off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

22.4 Financial liabilities

22.4.1 Classification

The Company classifies its financial liabilities in the following categories: (a) at amortized cost and (b) at fair value through profit or loss. Financial liabilities under category (b) comprises of two sub-categories: financial liabilities classified as held for trading and financial liabilities designated by the Company as at fair value through profit or loss. Management determines the classification of its financial liabilities at initial recognition.

The Company did not hold any financial liabilities through profit or loss during and at the end of each reporting period.

The Company's other financial liabilities at amortized cost comprise of trade payables and other current liabilities (except for deposits from travel agents, amounts payable to government agencies and output VAT payable), due to related parties, loans payable, lease liabilities and provisions for aircraft redelivery costs (Note 21.2).

22.4.2 Initial recognition, measurement and derecognition

Financial liabilities are recognized when the Company becomes a party to the contractual provision of the instrument. Financial liabilities are initially measured at fair value, plus transaction costs incurred. Financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities are derecognized when extinguished, i.e., when the obligation is discharged or is cancelled or expires.

22.5 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty. The Company has no existing offsetting arrangements as at December 31, 2023 and 2022.

22.6 Expendable parts, materials and supplies

Expendable parts, materials and supplies which are essentially the Company's inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of inventories comprises of all costs of purchases and other costs incurred in bringing it to their present location and condition attributable to purchase of these inventories. Cost of these inventories is further reduced by provision for inventory obsolescence, if any.

Expendable parts, materials and supplies are derecognized in the statement of financial position when consumed or written-off. When inventories are consumed, the carrying amount of these expendable parts, materials and supplies is recognized as an expense.

22.7 Prepaid taxes

Prepaid taxes are stated at face value less provision for impairment, if any.

A provision for unrecoverable prepaid taxes is established when there is objective evidence that the Company will not be able to recover the claims. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss within general and administrative expenses.

Prepaid taxes is derecognized when actually collected, applied against taxes due or disallowed by tax authority.

22.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and impairment, if any.

Depreciation and amortization is calculated using the straight-line method to allocate the cost of each asset, less its residual value, over its estimated useful lives, as follows:

	Number of years
Motor vehicles	5
Office furniture and fixtures	5
Aircraft support machinery and equipment	5 to 10

Leasehold improvements are amortized over the lease period or useful lives of 10 years, whichever is shorter.

22.9 Aircraft redelivery costs

Provision for aircraft redelivery costs arising from the Company's obligation, under its operating lease contracts, to bear certain costs of restoration, among others, at the time of the scheduled redelivery of the aircraft. A corresponding asset is recognized as part of property and equipment. Redelivery costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and is recognized in the statement of comprehensive income under "Interest expense" account. The estimated future costs of redelivery are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the asset. The amount deducted from the cost of the asset shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in profit or loss.

22.10 Impairment of non-financial assets

Non-financial assets, such as property and equipment (including the right-of-use assets) and prepayments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

22.11 Borrowings and borrowing costs

22.11.1 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of total comprehensive income over the period of the borrowings using the effective interest method.

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

Borrowings are derecognized when the obligation is settled, paid or discharged.

22.11.1 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognized and charged to operations in the year in which these are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are recorded as property and equipment, as applicable. All other borrowing costs are expensed in the period they occur.

As at December 31, 2023 and 2022, there are no borrowing costs directly attributable to the construction of a qualifying asset.

22.12 Leases - Company as lessee

The Company recognizes right-of-use assets and corresponding lease liabilities at the date at which the leased asset is available for use.

(a) Measurement of right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are classified in the statement of financial position as part of property and equipment.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

	Number of years
Passenger aircraft	4 to 12
Engines	5
Office	3

(b) Measurement of lease liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Company's leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third-party financing; and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(c) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets consist mainly for bus rental and office space, which are recognized as expense on a straight-line basis over the lease term.

22.13 Equity

Share capital

The Company's share capital consists of common shares and preferred shares. Capital stock is measured at par value. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of any tax effects.

Preferred shares that are not redeemable or are redeemable at the option of the Company and where payment of dividends is discretionary are classified as equity.

Deficit

Deficit represents accumulated losses of the Company less dividends declared if any, and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retrospectively. The Company is in a deficit position as at December 31, 2023 and 2022. Hence, there are no declarable dividends.

22.14 Revenue

The Company is in the business of providing air transportation services. Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Company expects to be entitled to. The specific recognition criteria for each type of revenue are as follows:

Passenger, cargo and other revenues

Passenger, cargo and other revenues (e.g., baggage fees, rebooking fees and other auxiliary income) are recognized over time when the services are rendered (i.e., when the passenger or cargo is lifted), and when applicable, are stated net of discounts. Collections for which services have not been rendered are recognized as contract liability (referred to herein as 'Unearned revenue'). Unearned revenue from passenger ticket are recognized as revenue once the service has been rendered based on the terms and conditions of the ticket.

Sales of in-flight meals and merchandise

Other revenues pertaining to sale of inflight meals and merchandises are recognized at the point in time when control of the asset is transferred to the customer, generally on the delivery and acceptance by the customers of the goods.

22.15 Other income

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method when it is determined that such income will accrue to the Company.

Other income

All other income is recognized when earned or when the right to receive payment is established.

22.16 Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities (or unearned revenues)

A contract liability (presented as unearned revenues in the statement of financial position) is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Contract liabilities mainly consists of unearned revenues arising from collections of passenger ticket sales prior to actual flight dates. These are recognized as revenue when the booked commercial flights have flown and conditions of the ticket sale have been fulfilled.

22.17 Costs and expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. These are presented in the statement of total comprehensive income according to function of such costs and expenses.

Cost of services

Cost of services represents costs incurred in relation to Company's inflight services. These costs include fuel, staff costs for its flight and ground crews, depreciation of aircraft fleet and ground handling related costs.

Operating expenses

Costs of day-to-day operations are generally expensed when incurred.

22.18 Employee benefits

Short-term benefits

Provision is made for benefits accruing to employees in respect of wages and salaries when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured using their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Retirement benefit obligation

The Company recognized retirement benefit obligation computed based on a defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long-term Philippine treasury 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 obligation.

In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on the PHP BVAL Reference Rates adjusted based on the average durations of the benchmark government bonds as at the valuation date, considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

Defined benefit cost is comprised of the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. Current and past service costs are recognized immediately in profit or loss.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account remeasurement gains (losses) on retirement plans are not reclassified to statement of income in subsequent periods.

Curtailment gain or loss resulting from the reduction in number of employees covered by the plan are recognized immediately in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

22.19 Current and deferred income tax

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the uncertainty.

Deferred tax assets are recognized only if it is possible that future taxable amounts will be available to utilize those temporary differences and carry-forward of unused tax losses (net operating loss carryover or NOLCO). No DIT assets were recognized for temporary differences as management believes that it will not be able to generate sufficient taxable profit to allow for the benefits of the DIT assets to be utilized in the near future. The Company reassesses at each reporting date the need to recognize a previously unrecognized DIT asset.

22.20 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized from the statement of financial position.

22.21 Subsequent events

Any post year-end event up to the date of the approval of the financial statements that provides additional information about the Company's position at reporting date (adjusting event) is reflected in the financial statements. Any post year-end event that is not an adjusting event is disclosed, when material, in notes to the financial statements.

23 Supplementary information required by the Bureau of Internal Revenue (BIR)

Based on the duly filed returns, below is the additional information required by RR No. 15-2010:

(i) Output VAT

Output VAT declared for the year ended December 31, 2023 and the gross revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Sales/receipts		
Subject to 12% VAT	6,324,002,578	758,880,309
Sales to government	7,212,816	865,537
Subject to zero-rated VAT	13,757,309	-
Total	6,344,972,703	759,745,846
Applied input VAT		(492,626,620)
Payments		(248,974,790)
Net output VAT payable		18,144,436

Receipts from the transport of passengers and cargoes to and from places within the Philippines are subject to 12% VAT. Gross receipts from international operations are either exempt or zero-rated. Transport from the Philippines to foreign countries are zero-rated while inbound transport is VAT exempt.

The gross revenues on sale of services are based on gross receipts of the Company while gross revenues presented in the statement of total comprehensive income are measured in accordance with the Company's accounting policy.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2023 are as follows:

Beginning balance	-
Add: Current year's domestic purchases/payments for:	
Goods	339,859,325
Services	130,230,603
Importation of goods other than capital goods	22,202,219
Total	492,292,147
Claim for tax credit/tax refund and other adjustments	334,473
Application against output VAT	492,626,620
	-

(iii) Documentary stamp tax (DST)

For the year ended December 31, 2023, the Company paid DST amounting to P1,111,883 in relation to insurance premiums and DST fee charges of banks.

(iv) Other taxes and licenses

All other local and national taxes paid and accrued for the year ended December 31, 2023 consist of:

Permits and license fees	4,150,345
Local business	500
	4,150,845

(v) Withholding taxes

Withholding taxes on compensation paid for the year ended December 31, 2023 amounted to P19,883,913.

(vi) Tax assessments

On July 21, 2021, the Company has received a Final Assessment Notice (FAN) from the BIR for the tax investigation covering all taxes of the taxable year 2017. The FAN is currently under protest and has not yet been settled as of reporting date.

On December 12, 2022, the Company has received a FAN from the BIR for the tax investigation covering all taxes of the taxable year 2016. The FAN is currently under protest and has not yet been settled as of reporting date.

On October 31, 2023, the Company has been issued Final Decision on Disputed Assessment by the BIR covering the taxable year 2018. Deficiency taxes amounting to P48,786,615 was fully paid on December 15, 2023. Consequently, on January 18, 2024, the Company received the Termination Letter from the BIR for the closure of the tax investigation for the taxable year 2018.

On October 16, 2023, the Company has received a FAN from the BIR for the VAT investigation for the taxable year 2019. The FAN is currently under protest and has not yet been settled as of reporting date.

(vii) Tax cases

The Company does not have any outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside of the BIR as at and for the year ended December 31, 2023.

1. DIRECTORS' RESPONSIBILITY STATEMENT

Our Directors have seen and approved this Circular and they collectively and individually accept full responsibility for the accuracy of the information given in this Circular. They confirm that, after making all reasonable enquiries, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Circular misleading.

The statements and information relating to the Vendor, Target Companies and Subscriber contained in this Circular have been obtained from and confirmed by the respective parties and the sole responsibility of our Board is limited to ensuring that such information is accurately reproduced in this Circular and our Board accepts no further or other responsibility in respect of such information.

2. CONSENTS AND CONFLICT OF INTEREST

2.1 Interpac

Interpac, being the Principal Adviser for the Proposals and Proposed Granting of Subscription Options and the Placement Agent for the Proposed Private Placement, has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which they are included in this Circular.

Interpac is not aware of any conflict of interest which exists or is likely to exist in relation to its roles as the Principal Adviser for the Proposals and Proposed Granting of Subscription Options and the Placement Agent for the Proposed Private Placement.

2.2 WYNCORP

WYNCORP, being the Independent Adviser for the Proposed Acquisitions and the expert which expressed an opinion on the fairness of the AAAGL Purchase Consideration for the Proposed AAAGL Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the IAL as set out in Part B of this Circular, the expert's report on the fairness of the AAAGL Purchase Consideration as set out in Appendix VII of this Circular and all references thereto in the form and context in which they are included in this Circular.

WYNCORP is not aware of any conflict of interest which exists or is likely to exist in relation to its roles as the Independent Adviser for the Proposed Acquisitions and the expert which expressed an opinion on the fairness of the AAAGL Purchase Consideration for the Proposed AAAGL Acquisition.

2.3 Deloitte

Deloitte, being the independent valuer for the valuation of the entire AAAGL Equity Interest and AAB Equity Interest, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the Valuer's Letters as set out in Appendix VI of this Circular and all references thereto in the form and context in which they are included in this Circular.

For information purposes, Deloitte was jointly appointed by our Company and Capital A for the valuation of the entire AAAGL Equity Interest and AAB Equity Interest. Notwithstanding that, Deloitte is not aware of any conflict of interest which exists or is likely to exist in relation to its role as the independent valuer for the valuation of the entire AAAGL Equity Interest and AAB Equity Interest.

2.4 SMITH ZANDER

SMITH ZANDER, being the independent market researcher which prepared the IMR Report on the aviation industry in Asia Pacific and Malaysia, has given and has not subsequently withdrawn its written consent to the inclusion of its name, extracts of the IMR Report as set out in Section 9.1, Part A of this Circular and all references thereto in the form and context in which they are included in this Circular.

SMITH ZANDER is not aware of any conflict of interest which exists or is likely to exist in relation to its role as the independent market researcher which prepared the IMR Report on the aviation industry in Asia Pacific and Malaysia.

2.5 Ernst & Young PLT

Ernst & Young PLT, being the reporting accountants which expressed an opinion on the compilation of the pro forma consolidated statement of financial position of our Group as at 31 December 2023, accountants' report of AAAGL and accountants' report of AAB, has given and has not subsequently withdrawn its written consent to the inclusion of its name, its opinion on the compilation of the pro forma consolidated statement of financial position of our Group as at 31 December 2023, accountants' report of AAAGL and accountants' report of AAB as set out in Appendix VIII of this Circular, Appendix IX of this Circular and Appendix X of this Circular respectively and all references thereto in the form and context in which they are included in this Circular.

For information purposes, Ernst & Young PLT acts as the external auditors and reporting accountants of our Company and Capital A. Notwithstanding that, Ernst & Young PLT is not aware of any conflict of interest which exists or is likely to exist in relation to its role as the reporting accountants which expressed an opinion on the compilation of the pro forma consolidated statement of financial position of our Group as at 31 December 2023, accountants' report of AAAGL and accountants' report of AAB.

2.6 Mah-Kamariyah & Philip Koh

Mah-Kamariyah & Philip Koh, being the Malaysian legal counsel for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the expert's report on policies on foreign investments, taxation and repatriation of profits under the relevant laws of Labuan and Malaysia as set out in Appendix XIII(A) of this Circular as well as the legal opinion on ownership of title to the securities or assets and the enforceability of agreements, representations and undertakings given by foreign counter-parties and other relevant legal matters under the relevant laws of Labuan and Malaysia as set out in Appendix XIV(A) of this Circular and all references thereto in the form and context in which they are included in this Circular.

Mah-Kamariyah & Philip Koh is not aware of any conflict of interest which exists or is likely to exist in relation to its role as the Malaysian legal counsel for the Proposals.

2.7 Chandler MHM Limited

Chandler MHM Limited, being the Thai legal counsel for the Proposed AAAGL Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the expert's report on policies on foreign investments, taxation and repatriation of profits under the relevant laws of Thailand as set out in Appendix XIII(B) of this Circular as well as the legal opinion on ownership of title to the securities or assets and the enforceability of agreements, representations and undertakings given by foreign counter-parties and other relevant legal matters under the relevant laws of Thailand as set out in Appendix XIV(B) of this Circular and all references thereto in the form and context in which they are included in this Circular.

Chandler MHM Limited is not aware of any conflict of interest which exists or is likely to exist in relation to its role as the Thai legal counsel for the Proposed AAAGL Acquisition.

2.8 Ocampo & Suralvo Law Offices

Ocampo & Suralvo Law Offices, being the Philippine legal counsel for the Proposed AAAGL Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the expert's report on policies on foreign investments, taxation and repatriation of profits under the relevant laws of the Philippines as set out in Appendix XIII(C) of this Circular as well as the legal opinion on ownership of title to the securities or assets and the enforceability of agreements, representations and undertakings given by foreign counter-parties and other relevant legal matters under the relevant laws of the Philippines as set out in Appendix XIV(C) of this Circular and all references thereto in the form and context in which they are included in this Circular.

Ocampo & Suralvo Law Offices is not aware of any conflict of interest which exists or is likely to exist in relation to its role as the Philippine legal counsel for the Proposed AAAGL Acquisition.

2.9 Hanafiah Ponggawa & Partners

Hanafiah Ponggawa & Partners, being the Indonesian legal counsel for the Proposed AAAGL Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the expert's report on policies on foreign investments, taxation and repatriation of profits under the relevant laws of Indonesia as set out in Appendix XIII(D) of this Circular as well as the legal opinion on ownership of title to the securities or assets and the enforceability of agreements, representations and undertakings given by foreign counter-parties and other relevant legal matters under the relevant laws of Indonesia as set out in Appendix XIV(D) of this Circular and all references thereto in the form and context in which they are included in this Circular.

Hanafiah Ponggawa & Partners is not aware of any conflict of interest which exists or is likely to exist in relation to its role as the Indonesian legal counsel for the Proposed AAAGL Acquisition.

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3. HISTORICAL SHARE PRICES

The monthly highest and lowest market prices of our Shares transacted for the 12 months preceding the date of this Circular and the last transacted market price of our Shares on the last trading day immediately before the announcement of the Proposals and proposed granting of Subscription Options and as at the LPD are as follows:-

	High	Low
	RM	RM
2023		
September	2.58	2.13
October	2.48	1.79
November	2.42	1.89
December	2.06	1.85
2024		
January	2.06	1.66
February	1.87	1.63
March	1.64	1.28
April	1.55	1.14
May	1.71	1.46
June	1.56	1.46
July	1.62	1.43
August	1.49	1.25
Last transacted market price of our Shares on 24 April 2024, being the last trading day immediately before the announcement of the Proposals and proposed granting of Subscription Options on 25 April 2024 (RM)	1.24	
Last transacted market price of our Shares as at the LPD (RM)	1.31	

(Source: Bloomberg)

4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

4.1 Material commitments

Save for capital commitments in respect of aircraft purchase as disclosed below, as at the LPD, there are no material commitments incurred or known to be incurred by our Company and our subsidiaries that have not been provided for in the financial statements and which, upon becoming enforceable, may have a material impact on our profits or NA:-

Commitments	Amount (RM'000)
Property, plant and equipment	
- Approved and contracted for	4,082,392

4.2 Contingent liabilities

As at the LPD, save as disclosed below, there are no contingent liabilities incurred or known to be incurred by our Company and our subsidiaries which, upon becoming enforceable, may have a material impact on our profits or NA:-

IAAX's tax liability

During the 18-month FPE 31 December 2022, IAAX (a joint venture of our Company) received a Tax Underpayment Assessment Letter from the Indonesia Tax Office, demanding a payment of IDR686.85 billion for tax underpayment in the fiscal year 2017. The tax audits for the fiscal years 2018 and 2019 were completed during the FYE 31 December 2023 and the Indonesia Tax Office raised an additional assessment of IDR796.59 billion.

IAAX has disputed the tax assessments by the Indonesia Tax Office and has submitted objection letters and appeal letters to the Indonesia Tax Office. The Indonesia Tax Office has rejected the appeal by IAAX and the case has been brought to court. In the event the dispute is ruled in favour of the Indonesia Tax Office, it is unlikely that IAAX will be able to pay the additional tax. Per Indonesian tax regulations, tax collection actions target "tax bearers" of corporate taxpayers, including shareholders. Consequently, our Company, as IAAX's shareholder, could be liable for the tax payable by IAAX for the amount of IDR726.89 billion (equivalent to approximately RM202.80 million*), based on its 49% equity interest in IAAX.

Our Directors, based on legal opinion provided by external lawyer, believe that it is not probable that our Company will incur expenses related to IAAX's tax liability due to the lack of legal mechanism in Indonesia to effect the reciprocal arrangement with partner countries for cross-border tax collection assistance. Additionally, cross-border tax collection is not permissible if the tax is in dispute. IAAX has contested the tax claim and the case is currently pending hearing in Indonesia.

Note:-

* *Based on Bank Negara Malaysia's closing middle exchange rate of IDR100 : RM0.0279 as at the LPD.*

5. MATERIAL CONTRACTS

Save for the agreements in relation to the Proposed Internal Reorganisation (as defined in Section 1, Part A of this Circular), Proposed Acquisitions and proposed granting of Subscription Options as well as those disclosed below, our Company and our subsidiaries have not entered into any material contracts (not being contracts entered into in the ordinary course of business) within 2 years immediately preceding the date of this Circular:-

(i) share subscription agreement dated 22 May 2023 entered into between AAX and AHAM Asset Management Berhad for the subscription of 12,909,033 Shares for a cash consideration of RM20,009,001.15, which was completed on 15 June 2023;

(ii) share subscription agreement dated 22 May 2023 entered into between AAX and AIIMAN Asset Management Sdn Bhd for the subscription of 3,220,000 Shares for a cash consideration of RM4,991,000.00, which was completed on 15 June 2023; and

(iii) share subscription agreement dated 22 May 2023 entered into between AAX and Lavin Group Sdn Bhd for the subscription of 16,129,033 Shares for a cash consideration of RM25,000,001.15, which was completed on 15 June 2023.

6. MATERIAL LITIGATION

As at the LPD, our Company and our subsidiaries are not involved in any material litigation, claims or arbitration, either as plaintiff or defendant, and our Board is not aware of any proceedings, pending or threatened, against our Company and our subsidiaries or any facts which are likely to give rise to any proceedings which may materially and adversely affect our business or financial position.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the registered office of our Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia during normal business hours on Mondays to Fridays (except public holidays) from the date of this Circular until the date of the EGM:-

(i) Constitution of AAX and the Target Companies;

(ii) Letter of Undertaking referred to in Section 4.11, Part A of this Circular;

(iii) audited consolidated financial statements of our Company for the 18-month FPE 31 December 2022 and FYE 31 December 2023 as well as unaudited consolidated financial statements of our Company for the 6-month FPE 30 June 2024;

(iv) audited financial statements of the Target Companies for the FYE 31 December 2022 and FYE 31 December 2023 as well as unaudited consolidated financial statements of the Target Companies for the 6-month FPE 30 June 2024;

(v) SSPAs;

(vi) Subscription Option Agreement;

(vii) Valuer's Letters as set out in Appendix VI of this Circular;

(viii) IMR Report;

(ix) expert's report on the fairness of the AAAGL Purchase Consideration as set out in Appendix VII of this Circular;

(x) pro forma consolidated statement of financial position of our Group as at 31 December 2023 together with the reporting accountants' report as set out in Appendix VIII of this Circular;

(xi) accountants' report of AAAGL as set out in Appendix IX of this Circular;

(xii) accountants' report of AAB as set out in Appendix X of this Circular;

(xiii) directors' report on AAAGL as set out in Appendix XI of this Circular;

(xiv) directors' report on AAB as set out in Appendix XII of this Circular;

(xv) expert's report on policies on foreign investments, taxation and repatriation of profits under the relevant laws of Labuan, Malaysia, Thailand, the Philippines and Indonesia as set out in Appendix XIII of this Circular;

(xvi) legal opinion on ownership of title to the securities or assets and the enforceability of agreements, representations and undertakings given by foreign counter-parties and other relevant legal matters under the relevant laws of Labuan, Malaysia, Thailand, the Philippines and Indonesia as set out in Appendix XIV of this Circular;

(xvii) letters of consent and conflict of interest referred to in Section 2 of this Appendix XVI;

(xviii) material contracts referred to in Section 7 of Appendix IV of this Circular, Section 7 of Appendix V of this Circular and Section 5 of this Appendix XVI;

(xix) relevant cause papers for the material litigation referred to in Section 8 of Appendix V of this Circular; and

(xx) draft Deed Poll.

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AIRASIA X BERHAD
(Registration No. 200601014410 (734161-K))
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting ("**EGM**") of AirAsia X Berhad ("**AAX**" or the "**Company**") will be held as a virtual meeting via live streaming and online remote voting using the Remote Participation and Voting Facilities ("**RPV**") provided by Tricor Investor & Issuing House Services Sdn Bhd ("**TIIH**") via its TIIH Online website at https://tiih.online, from the Broadcast Venue at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia on Wednesday, 16 October 2024 at 10.00 a.m. or at any adjournment thereof, for the purpose of considering and, if thought fit, passing the following resolutions with or without modifications:-

ORDINARY RESOLUTION 1

PROPOSED ISSUANCE OF UP TO 223,536,401 FREE WARRANTS IN AAX ("WARRANTS") ON THE BASIS OF 1 WARRANT FOR EVERY 2 ORDINARY SHARES IN AAX ("SHARES") HELD BY THE SHAREHOLDERS OF AAX ON AN ENTITLEMENT DATE TO BE DETERMINED AND ANNOUNCED LATER ("WARRANTS ENTITLEMENT DATE") ("PROPOSED ISSUANCE OF FREE WARRANTS")

"**THAT** subject to the passing of the Ordinary Resolution 3 and Ordinary Resolution 4 as well as the approvals, waivers and/or consents of all relevant authorities and/or parties being obtained (if required), the Board of Directors of the Company ("**Board**") be and is hereby authorised to allot and issue up to 223,536,401 free Warrants in registered form and constituted by a deed poll to be executed by the Company constituting the Warrants ("**Deed Poll**") by way of an issuance of free Warrants to all entitled shareholders of the Company whose names are registered in the Record of Depositors of the Company as at the close of business on the Warrants Entitlement Date on the basis of 1 free Warrant for every 2 Shares held on the Warrants Entitlement Date;

THAT the Board be and is hereby authorised to determine the exercise price of the Warrants at a later date based on the 5-day volume-weighted average market price of the Shares up to and including the last trading day prior to the price-fixing date of the Warrants;

THAT the Board be and is hereby authorised to allot and issue such appropriate number of additional Warrants as may be required or permitted to be allotted and issued as consequences of any adjustments under the provisions in the Deed Poll ("**Additional Warrants**") and to adjust from time to time the exercise price of the Warrants as a consequence of the adjustments under the provisions in the Deed Poll and/or to effect such modifications, variations and/or amendments as may be imposed, required or permitted by Bursa Malaysia Securities Berhad ("**Bursa Securities**") and any other relevant authorities or parties (where required);

THAT the Board be and is hereby authorised to allot and issue new Shares pursuant to the exercise of the Warrants by the holders of the Warrants in accordance with the Deed Poll, including such appropriate number of new Shares pursuant to the exercise of the Additional Warrants;

THAT the new Shares to be issued pursuant to the exercise of the Warrants and Additional Warrants shall, upon allotment, issuance and payment of the exercise price of the Warrants and Additional Warrants, rank equally in all respects with the then existing issued Shares, save and except that the holders of such new Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment and issuance of the new Shares pursuant to the exercise of the Warrants and Additional Warrants;

THAT the Board be and is hereby authorised to disregard and/or deal with any fractional entitlements for the Warrants that may arise from the Proposed Issuance of Free Warrants, if any, in such manner as the Board shall in its absolute discretion deems fit and expedient in the best interests of the Company;

THAT the proceeds from the exercise of the Warrants shall be used in the manner and for the purposes as set out in Section 2.6, Part A of the circular to the shareholders of the Company dated 24 September 2024 ("**Circular**") and the Board be and is hereby authorised with full power to vary the manner and/or purpose of use of such proceeds in such manner as the Board may deem fit, necessary and/or expedient in the best interests of the Company, subject to the approval of the relevant authorities (where required);

THAT the Warrants, Additional Warrants and the new Shares to be issued pursuant to the exercise of the Warrants and Additional Warrants shall be listed on the Main Market of Bursa Securities;

THAT the Board be and is hereby authorised to enter into and execute the Deed Poll with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by the relevant authorities or deemed necessary by the Board, and subject to all provisions and adjustments contained in the Deed Poll, to assent to any modifications and/or amendments to the exercise price and/or number of Warrants as may be required or permitted to be revised as consequences of any adjustments under the provisions of the Deed Poll with full power to implement and give effects to the terms and conditions of the Deed Poll, and to take all steps as the Board deems fit or expedient in order to implement, finalise and give full effect to the Deed Poll;

THAT the Board be and is hereby authorised to approve, sign and execute all documents and/or agreements and to do all things and acts as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed Issuance of Free Warrants in the best interests of the Company with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by the relevant authorities or as the Board may deem fit or necessary or expedient to implement, finalise and give full effect to the Proposed Issuance of Free Warrants;

AND THAT this Ordinary Resolution 1 constitutes a specific approval for the allotment and issuance of securities in the Company contemplated herein and shall continue in full force and effect until all Warrants and Additional Warrants to be issued pursuant to or in connection with the Proposed Issuance of Free Warrants and the new Shares to be issued pursuant to the exercise of the Warrants and Additional Warrants have been duly allotted and issued in accordance with the terms of the Proposed Issuance of Free Warrants."

ORDINARY RESOLUTION 2

PROPOSED PRIVATE PLACEMENT OF NEW SHARES TO INDEPENDENT THIRD PARTY INVESTORS TO BE IDENTIFIED LATER AT AN ISSUE PRICE TO BE DETERMINED LATER TO RAISE GROSS PROCEEDS OF RM1,000.00 MILLION ("PROPOSED PRIVATE PLACEMENT")

"**THAT** subject to the approvals, waivers and/or consents of all relevant authorities and/or parties being obtained (if required), the Board be and is hereby authorised to allot and issue up to 1,000,000,000 Shares by way of private placement ("**Placement Shares**") to independent third party investors to be identified later in 1 or multiple tranches at an issue price for each tranche to be determined at later date(s) by the Board ("**Price-Fixing Date(s)**") to raise gross proceeds of up to RM1,000.00 million upon such terms and conditions as set out in the Circular;

THAT the Board be and is hereby authorised to determine the issue price for each tranche of the Placement Shares at the Price-Fixing Date(s) based on a discount of not more than 15% to the 5-day volume-weighted average market price of the Shares up to and including the last trading day prior to the Price-Fixing Date(s) and in any event, the minimum issue price of the Placement Shares shall be RM1.00 per Placement Share;

THAT the Placement Shares shall, upon allotment, issuance and full payment of the issue price, rank equally in all respects with the then existing issued Shares, save and except that the holders of such Placement Shares shall not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment and issuance of the Placement Shares;

THAT the proceeds from the Proposed Private Placement shall be used in the manner and for the purposes as set out in Section 3.7, Part A of the Circular and the Board be and is hereby authorised with full power to vary the manner and/or purpose of use of such proceeds in such manner as the Board may deem fit, necessary and/or expedient in the best interests of the Company, subject to the approval of the relevant authorities (where required);

THAT the Placement Shares shall be listed on the Main Market of Bursa Securities;

THAT pursuant to Section 85(1) of the Companies Act, 2016 ("**Act**") read together with Clause 16 of the Constitution of the Company, it could possibly be construed that all new shares or other convertible securities in the Company shall, before issue, be offered to such persons for the time being holding shares in proportion as nearly as the circumstances admit, to the number of existing shares or securities to which they are entitled and accordingly, should this resolution for the allotment and issuance of the Placement Shares be passed by shareholders of the Company, this resolution shall have the effect of the shareholders agreeing to waive the statutory pre-emptive rights in respect of the Placement Shares to be allotted and issued by the Company to independent third party investors to be identified later pursuant to the Proposed Private Placement, provided however that if following the passing of this resolution, this paragraph is or is found to be in any way void, invalid or unenforceable, then this paragraph shall be ineffective to the extent of such voidness, invalidity or unenforceability and the remaining provisions of this resolution shall remain in full force and effect;

THAT the Board be and is hereby authorised to approve, sign and execute all documents and/or agreements and to do all things and acts as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed Private Placement in the best interests of the Company with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by the relevant authorities or as the Board may deem fit or necessary or expedient to implement, finalise and give full effect to the Proposed Private Placement;

AND THAT this Ordinary Resolution 2 constitutes a specific approval for the allotment and issuance of securities in the Company contemplated herein and shall continue in full force and effect until all Placement Shares to be issued pursuant to or in connection with the Proposed Private Placement have been duly allotted and issued in accordance with the terms of the Proposed Private Placement."

ORDINARY RESOLUTION 3

PROPOSED ACQUISITION BY THE COMPANY OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW SHARES AT AN ISSUE PRICE OF RM1.30 EACH ("PROPOSED AAAGL ACQUISITION")

"**THAT** subject to the passing of the Ordinary Resolution 2, the approvals, waivers and/or consents of all relevant authorities and/or parties being obtained (if required) and the conditions precedent in the conditional share sale and purchase agreement dated 25 April 2024 entered into between Capital A Berhad and AirAsia Group Berhad (formerly known as AirAsia Aviation Group Sdn Bhd) ("**AAG**"), the supplemental agreement dated 26 July 2024 entered into between Capital A Berhad, AAG and the Company and the second supplemental agreement dated 4 September 2024 entered into between Capital A Berhad and the Company for the Proposed AAAGL Acquisition (collectively, the "**AAAGL SSPA**") being satisfied, fulfilled and/or waived, approval be and is hereby given to the Company to acquire 100% equity interest in AirAsia Aviation Group Limited for a purchase consideration of RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 new Shares ("**Consideration Shares**") at an issue price of RM1.30 each, in accordance with the terms and conditions of the AAAGL SSPA;

THAT the Board be and is hereby authorised to allot and issue 2,307,692,307 Consideration Shares at an issue price of RM1.30 each to Capital A Berhad and/or its shareholders to satisfy the purchase consideration for the Proposed AAAGL Acquisition in accordance with the terms and conditions of the AAAGL SSPA;

THAT the Consideration Shares shall, upon allotment and issuance, rank equally in all respects with the then existing issued Shares, save and except that the holder of the Consideration Shares shall not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment and issuance of the Consideration Shares;

THAT the Consideration Shares shall be listed on the Main Market of Bursa Securities;

THAT pursuant to Section 85(1) of the Act read together with Clause 16 of the Constitution of the Company, it could possibly be construed that all new shares or other convertible securities in the Company shall, before issue, be offered to such persons for the time being holding shares in proportion as nearly as the circumstances admit, to the number of existing shares or securities to which they are entitled and accordingly, should this resolution for the allotment and issuance of the Consideration Shares be passed by shareholders of the Company, this resolution shall have the effect of the shareholders agreeing to waive the statutory pre-emptive rights in respect of the Consideration Shares to be allotted and issued by the Company to Capital A Berhad and/or its shareholders pursuant to the Proposed AAAGL Acquisition, provided however that if following the passing of this resolution, this paragraph is or is found to be in any way void, invalid or unenforceable, then this paragraph shall be ineffective to the extent of such voidness, invalidity or unenforceability and the remaining provisions of this resolution shall remain in full force and effect;

THAT the Board be and is hereby authorised to approve, sign and execute all documents and/or agreements and to do all things and acts as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed AAAGL Acquisition in the best interests of the Company with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by the relevant authorities or as the Board may deem fit or necessary or expedient to implement, finalise and give full effect to the Proposed AAAGL Acquisition;

AND THAT this Ordinary Resolution 3 constitutes a specific approval for the allotment and issuance of securities in the Company contemplated herein and shall continue in full force and effect until all Consideration Shares to be issued pursuant to or in connection with the Proposed AAAGL Acquisition have been duly allotted and issued in accordance with the terms and conditions of the Proposed AAAGL Acquisition."

ORDINARY RESOLUTION 4

PROPOSED ACQUISITION BY THE COMPANY OF 100% EQUITY INTEREST IN AIRASIA BERHAD HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,800.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ASSUMPTION BY AAX OF AN AMOUNT OF RM3,800.00 MILLION OWING BY CAPITAL A BERHAD TO AIRASIA BERHAD ("PROPOSED AAB ACQUISITION")

"**THAT** subject to the passing of the Ordinary Resolution 2, the approvals, waivers and/or consents of all relevant authorities and/or parties being obtained (if required) and the conditions precedent in the conditional share sale and purchase agreement dated 25 April 2024 entered into between Capital A Berhad and AAG, the supplemental agreement dated 26 July 2024 entered into between Capital A Berhad, AAG and the Company and the second supplemental agreement dated 4 September 2024 entered into between Capital A Berhad and the Company for the Proposed AAB Acquisition (collectively, the "**AAB SSPA**") being satisfied, fulfilled and/or waived, approval be and is hereby given to the Company to acquire 100% equity interest in AirAsia Berhad for a purchase consideration of RM3,800.00 million to be satisfied entirely via the assumption by the Company of an amount of RM3,800.00 million owing by Capital A Berhad to AirAsia Berhad, in accordance with the terms and conditions of the AAB SSPA;

AND THAT the Board be and is hereby authorised to approve, sign and execute all documents and/or agreements and to do all things and acts as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed AAB Acquisition in the best interests of the Company with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by the relevant authorities or as the Board may deem fit or necessary or expedient to implement, finalise and give full effect to the Proposed AAB Acquisition."

ORDINARY RESOLUTION 5

PROPOSED GRANTING TO GARYNMA INVESTMENTS PTE LTD ("GARYNMA" OR THE "SUBSCRIBER") THE RIGHTS TO SUBSCRIBE FOR SUCH NUMBER OF NEW SHARES ("SUBSCRIPTION OPTIONS") REPRESENTING, IN AGGREGATE, 12% OF THE TOTAL ISSUED SHARES IN AAX IMMEDIATELY AFTER THE COMPLETION OF THE PROPOSED AAAGL ACQUISITION AND PROPOSED AAB ACQUISITION (EXCLUDING TREASURY SHARES, IF ANY) VIA 3 SUBSCRIPTION OPTIONS OF 4% EACH ("PROPOSED GRANTING OF SUBSCRIPTION OPTIONS")

"**THAT** subject to the approvals, waivers and/or consents of all relevant authorities and/or parties being obtained (if required) and the conditions precedent in the conditional subscription option agreement dated 26 July 2024 entered into between Garynma and the Company for the Proposed Granting of Subscription Options ("**Subscription Option Agreement**") being satisfied, fulfilled and/or waived, approval be and is hereby given to the Company to undertake the Proposed Granting of Subscription Options in accordance with the terms and conditions of the Subscription Option Agreement;

THAT the Board be and is hereby authorised to grant the 3 Subscription Options of 4% each to Garynma immediately after the completion of the Proposed AAAGL Acquisition and Proposed AAB Acquisition in accordance with the terms and conditions of the Subscription Option Agreement;

THAT each Subscription Option granted may be individually accepted in full or in part by the Subscriber at any point of time during a period of 24 months from the date of granting of the Subscription Option. Upon acceptance of a Subscription Option by the Subscriber, the Subscription Option may be exercised by the Subscriber at any point of time during a period of 48 months from the date of granting of the Subscription Option ("**Subscription Option Period**") to subscribe, in full or in part, for new Shares. Any Subscription Options not accepted or not exercised by the Subscriber within the stipulated period shall lapse and cease to be valid for any purpose;

THAT the Board be and is hereby authorised to allot and issue new Shares pursuant to the exercise of the Subscription Option(s) by the Subscriber ("**Subscription Shares**") in accordance with the terms and conditions of the Subscription Option Agreement;

THAT the issue price of the Subscription Shares comprised in each Subscription Option shall be the closing market price of the Shares as at the last trading day prior to acceptance by the Subscriber of the grant of the relevant Subscription Option;

THAT the Subscription Shares shall, upon allotment, issuance and full payment of the issue price, rank equally in all respects with the then existing issued Shares, save and except that the holder of the Subscription Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment and issuance of the Subscription Shares;

THAT the proceeds from the issuance of the Subscription Shares shall be used in the manner and for the purposes as set out in Section 7.6, Part A of the Circular and the Board be and is hereby authorised with full power to vary the manner and/or purpose of use of such proceeds in such manner as the Board may deem fit, necessary and/or expedient in the best interests of the Company, subject to the approval of the relevant authorities (where required);

THAT the Subscription Shares shall be listed on the Main Market of Bursa Securities;

THAT the Board be and is hereby authorised to assent to any modifications and/or amendments to the issue price and/or number of Subscription Shares comprised in each Subscription Option as may be required or permitted to be revised as consequences of any adjustments under the provisions of the Subscription Option Agreement;

THAT pursuant to Section 85(1) of the Act read together with Clause 16 of the Constitution of the Company, it could possibly be construed that all new shares or other convertible securities in the Company shall, before issue, be offered to such persons for the time being holding shares in proportion as nearly as the circumstances admit, to the number of existing shares or securities to which they are entitled and accordingly, should this resolution for the allotment and issuance of the Subscription Shares be passed by shareholders of the Company, this resolution shall have the effect of the shareholders agreeing to waive the statutory pre-emptive rights in respect of the Subscription Shares to be allotted and issued by the Company to the Subscriber pursuant to the Proposed Granting of Subscription Options, provided however that if following the passing of this resolution, this paragraph is or is found to be in any way void, invalid or unenforceable, then this paragraph shall be ineffective to the extent of such voidness, invalidity or unenforceability and the remaining provisions of this resolution shall remain in full force and effect;

THAT the Board be and is hereby authorised to approve, sign and execute all documents and/or agreements and to do all things and acts as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed Granting of Subscription Options in the best interests of the Company with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by the relevant authorities or as the Board may deem fit or necessary or expedient to implement, finalise and give full effect to the Proposed Granting of Subscription Options;

AND THAT this Ordinary Resolution 5 constitutes a specific approval for the allotment and issuance of securities in the Company contemplated herein and shall continue in full force and effect until all Subscription Shares to be issued pursuant to or in connection with the Proposed Granting of Subscription Options have been duly allotted and issued in accordance with the terms of the Proposed Granting of Subscription Options."

<u>SPECIAL RESOLUTION</u>

PROPOSED REDUCTION OF THE ISSUED SHARE CAPITAL OF AAX TO RM100.00 MILLION PURSUANT TO SECTION 116 OF THE ACT ("PROPOSED SHARE CAPITAL REDUCTION")

"**THAT** subject to the approvals, waivers and/or consents of all relevant authorities and/or parties being obtained (if required), the Board be and is hereby authorised to reduce the issued share capital of the Company to RM100.00 million pursuant to Section 116 of the Act. The credit arising from the Proposed Share Capital Reduction will be used to eliminate the accumulated losses of AAX's group of companies and any balance credit after elimination of the accumulated losses will be credited to a reserve account which serves as additional credit buffer to set off any future losses, if allowed or for such other purposes as may be allowed under the relevant applicable laws, the Main Market Listing Requirements of Bursa Securities as well as the Constitution of the Company but excluding the diminution of liability in respect of unpaid share capital or payment to any shareholders of the Company of any paid-up share capital;

AND THAT the Board be and is hereby authorised to approve, sign and execute all documents and/or agreements and to do all things and acts as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed Share Capital Reduction in the best interests of the Company with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by the relevant authorities or as the Board may deem fit or necessary or expedient to implement, finalise and give full effect to the Proposed Share Capital Reduction."

By Order of the Board
AIRASIA X BERHAD

THIN PUI LENG (LS0009933)
(SSM PC No. 202208000271)

Company Secretary
Selangor Darul Ehsan
24 September 2024

<u>Virtual EGM</u>

1. *The EGM of the Company will be held as a virtual meeting via live streaming and online remote voting using the RPV provided by TIIH via its **TIIH Online website at <u>https://tiih.online</u>**. This is in line with the revised Guidance Note and Frequently Asked Questions on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia on 7 April 2022 (including any amendments that may be made from time to time) ("**Guidance Note**"). Please follow the procedures as set out in the **Administrative Details** which are available at the Company's website at **<u>www.airasiax.com/agm_egm.html</u>**.*

2. *The Broadcast Venue is strictly for the purpose of complying with Section 327(2) of the Act and Guidance Note which require the Chairman of the meeting to be present at the main venue of the meeting.*

3. *Members and/or proxy(ies) and/or corporate representative(s) and/or attorney(s) **WILL NOT BE ALLOWED** to be physically present at the Broadcast Venue on the day of the EGM, instead are to attend, speak (including posing questions to the Board via real time submission of typed texts) and vote (collectively, "**participate**") remotely at the EGM via the RPV provided by TIIH.*

<u>Notes:-</u>

1. *Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Rule 41(a) of the Company's Constitution, only those Foreigners (as defined in the Company's Constitution) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total number of issued shares of the Company, on a first-in-time basis based on the Record of Depositors to be used for the forthcoming EGM, shall be entitled to vote. A proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote. Consequently, all such disenfranchised voting rights shall be automatically vested in the Chairman of the EGM.*

2. *A member must be registered in the **Record of Depositors at 5.00 p.m. on 8 October 2024** ("**General Meeting Record of Depositors**") in order to attend and vote at the EGM. A depositor shall not be regarded as a member entitled to attend the EGM and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors. Any changes in the entries on the Record of Depositors after the abovementioned date and time shall be disregarded in determining the rights of any person to attend and vote at the EGM.*

3. *A member entitled to attend and vote is entitled to appoint not more than two (2) proxies (or in the case of a corporation, to appoint a representative(s) in accordance with Section 333 of the Act) to attend and vote in his stead. There shall be no restriction as to the qualification of the proxy(ies).*

4. *Where a member appoints two (2) proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.*

5. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*

6. *The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than forty-eight (48) hours before the time appointed for holding the EGM or adjourned general meeting at which the person named in the appointment proposes to vote:*

   (i) *<u>In hard copy form</u>*
   In the case of an appointment made in hard copy form, the Form of Proxy must be deposited at the registered office of the Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia.

   (ii) *<u>By electronic means</u>*
   *The Form of Proxy can be electronically lodged via **TIIH Online** website at <u>https://tiih.online</u>. Kindly refer to the Administrative Details on the procedures for electronic lodgement of Form of Proxy via TIIH Online.*

7. *Please ensure **ALL** the particulars as required in the Form of Proxy are completed, signed and dated accordingly.*

8. *Last date and time for lodging the Form of Proxy is **Monday, 14 October 2024 at 10.00 a.m.***

9. *Any authority pursuant to which such an appointment is made by a power of attorney must be deposited at the registered office of the Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time appointed for holding the EGM or adjourned general meeting at which the person named in the appointment proposes to vote. A copy of the power of attorney may be accepted provided that it is certified notarially and/or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.*

10. *For a corporate member who has appointed an authorised representative, please deposit the **ORIGINAL / DULY CERTIFIED** certificate of appointment of authorised representative at the registered office of the Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia. The certificate of appointment of authorised representative should be executed in the following manner:*

    (i) *If the corporate member has a common seal, the certificate of appointment of authorised representative should be executed under seal in accordance with the constitution of the corporate member.*

(ii) If the corporate member does not have a common seal, the certificate of appointment of authorised representative should be affixed with the rubber stamp of the corporate member (if any) and executed by:
(a) at least two (2) authorised officers, of whom one shall be a director; or
(b) any director and/or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

11. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Securities, all resolutions set out in this Notice of EGM will be put to vote by way of poll.

<u>Personal Data Privacy:</u>
*By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees and undertakes that the member shall indemnify the Company and/or to keep the Company fully indemnified and save the Company harmless against all and/or any actions, demands, claims, losses, costs, proceedings and damages (including all legal fees and costs) which the Company may suffer or incur in any manner howsoever arising from or as a result of the member's breach of the aforementioned warranty.*

<u>Explanatory Note:</u>
*Pursuant to Section 85(1) of the Act read together with Clause 16 of the Constitution of the Company, it could possibly be construed that all new shares or other convertible securities in the Company shall, before issue, be offered to such persons who are entitled to receive notices from the Company of general meetings as at the date of the offer in proportion as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled ("**Pre-emptive Rights**").*

By voting in favour of the proposed Ordinary Resolutions 2, 3 and 5, you will also approve the disapplication of the Pre-emptive Rights under Section 85(1) of the Act read together with Clause 16 of the Constitution of the Company and such approval is tantamount to the member agreeing to waive your Pre-emptive Rights in respect of new Shares to be allotted and issued by the Company pursuant to the Proposed Private Placement, Proposed AAAGL Acquisition and Proposed Granting of Subscription Options respectively.

The details of the Proposed Private Placement, Proposed AAAGL Acquisition and Proposed Granting of Subscription Options are set out in the Circular, which is available on the websites of the Company and Bursa Malaysia Berhad.

AIRASIA X BERHAD
(Registration No. 200601014410 (734161-K))
(Incorporated in Malaysia)
(the "**Company**")

FORM OF PROXY

*I/We,____, NRIC No./ Passport No. / Company No.
(FULL NAME AS PER NRIC / CERTIFICATE OF INCORPORATION IN BLOCK LETTERS)

______________________ of ____
(FULL ADDRESS)

Telephone Number __________________________ Email Address ____

being a member of the Company, hereby appoint____,
(FULL NAME IN BLOCK LETTERS)

NRIC No. / Passport No.____________________ of ____
(FULL ADDRESS)

_______________Telephone Number _______________________ Email Address _________________________________

or failing him/her, ____________________________________, NRIC No. / Passport No.____________________________
(FULL NAME IN BLOCK LETTERS)

of____
(FULL ADDRESS)

Telephone Number __________________________ Email Address ____

*or failing him/her, the Chairman of the Meeting as my/our proxy(ies) to vote in my/our name and on my/our behalf at the Extraordinary General Meeting ("**EGM**") of the Company to be held as a virtual meeting via live streaming and online remote voting using the Remote Participation and Voting Facilities ("**RPV**") provided by Tricor Investor & Issuing House Services Sdn Bhd ("**TIIH**") via its TIIH Online website at https://tiih.online, from the Broadcast Venue at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia on Wednesday, 16 October 2024 at 10.00 a.m. or at any adjournment thereof, and to vote as indicated below:-

Resolution	Agenda	FOR	AGAINST
Ordinary Resolution 1	Proposed Issuance of Free Warrants		
Ordinary Resolution 2	Proposed Private Placement		
Ordinary Resolution 3	Proposed AAAGL Acquisition		
Ordinary Resolution 4	Proposed AAB Acquisition		
Ordinary Resolution 5	Proposed Granting of Subscription Options		
Special Resolution	Proposed Share Capital Reduction		

(Please indicate with an "X" in the appropriate spaces how you wish your votes to be cast. If you do not do so, the proxy will vote or abstain from voting, as he/she thinks fit.)

**Delete the words "or failing him/her, the Chairman of the Meeting" if not applicable.*

No. of shares held:			
CDS Account No:			
The proportion of my/our holding to be represented by my/our proxies are as follows:		**No. of shares**	**Percentage**
	First Proxy		
	Second Proxy		
Date:			

____
Signature(s) / Common Seal of Member(s)

Virtual EGM

1. *The EGM of the Company will be held as a virtual meeting via live streaming and online remote voting using the RPV provided by TIIH via its **TIIH Online website at https://tiih.online**. This is in line with the revised Guidance Note and Frequently Asked Questions on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia on 7 April 2022 (including any amendments that may be made from time to time) ("**Guidance Note**"). Please follow the procedures as set out in the **Administrative Details** which are available at the Company's website at **www.airasiax.com/agm_egm.html**.*

2. *The Broadcast Venue is strictly for the purpose of complying with Section 327(2) of the Companies Act, 2016 and Guidance Note which require the Chairman of the meeting to be present at the main venue of the meeting.*

3. *Members and/or proxy(ies) and/or corporate representative(s) and/or attorney(s) **WILL NOT BE ALLOWED** to be physically present at the Broadcast Venue on the day of the EGM, instead are to attend, speak (including posing questions to the Board of Directors of the Company via real time submission of typed texts) and vote (collectively, "**participate**") remotely at the EGM via the RPV provided by TIIH.*

Notes:-

1. *Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Rule 41(a) of the Company's Constitution, only those Foreigners (as defined in the Company's Constitution) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total number of issued shares of the Company, on a first-in-time basis based on the Record of Depositors to be used for the forthcoming EGM, shall be entitled to vote. A proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote. Consequently, all such disenfranchised voting rights shall be automatically vested in the Chairman of the EGM.*

2. *A member must be registered in the **Record of Depositors at 5.00 p.m. on 8 October 2024** ("**General Meeting Record of Depositors**") in order to attend and vote at the EGM. A depositor shall not be regarded as a member entitled to attend the EGM and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors. Any changes in the entries on the Record of Depositors after the abovementioned date and time shall be disregarded in determining the rights of any person to attend and vote at the EGM.*

3. *A member entitled to attend and vote is entitled to appoint not more than two (2) proxies (or in the case of a corporation, to appoint a representative(s) in accordance with Section 333 of the Companies Act, 2016) to attend and vote in his stead. There shall be no restriction as to the qualification of the proxy(ies).*

4. *Where a member appoints two (2) proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.*

5. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*

6. *The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than forty-eight (48) hours before the time appointed for holding the EGM or adjourned general meeting at which the person named in the appointment proposes to vote:*

   (i) *In hard copy form*
   In the case of an appointment made in hard copy form, this Form of Proxy must be deposited at the registered office of the Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia.

   (ii) *By electronic means*
   *This Form of Proxy can be electronically lodged via **TIIH Online** website at https://tiih.online. Kindly refer to the Administrative Details on the procedures for electronic lodgement of Form of Proxy via TIIH Online.*

7. *Please ensure **ALL** the particulars as required in this Form of Proxy are completed, signed and dated accordingly.*

8. *Last date and time for lodging this Form of Proxy is **Monday, 14 October 2024 at 10.00 a.m.***

9. *Any authority pursuant to which such an appointment is made by a power of attorney must be deposited at the registered office of the Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time appointed for holding the EGM or adjourned general meeting at which the person named in the appointment proposes to vote. A copy of the power of attorney may be accepted provided that it is certified notarially and/or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.*

10. *For a corporate member who has appointed an authorised representative, please deposit the* ***ORIGINAL / DULY CERTIFIED*** *certificate of appointment of authorised representative at the registered office of the Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur, 64000 KLIA, Selangor Darul Ehsan, Malaysia. The certificate of appointment of authorised representative should be executed in the following manner:*

    (i) *If the corporate member has a common seal, the certificate of appointment of authorised representative should be executed under seal in accordance with the constitution of the corporate member.*

    (ii) *If the corporate member does not have a common seal, the certificate of appointment of authorised representative should be affixed with the rubber stamp of the corporate member (if any) and executed by:*
        (a) *at least two (2) authorised officers, of whom one shall be a director; or*
        (b) *any director and/or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.*

11. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of EGM will be put to vote by way of poll.*

Personal Data Privacy:

*By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "****Purposes****"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees and undertakes that the member shall indemnify the Company and/or to keep the Company fully indemnified and save the Company harmless against all and/or any actions, demands, claims, losses, costs, proceedings and damages (including all legal fees and costs) which the Company may suffer or incur in any manner howsoever arising from or as a result of the member's breach of the aforementioned warranty.*

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretary
AIRASIA X BERHAD
(Registration No. 200601014410 (734161-K))

RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan
Malaysia

1st fold here