

AIRASIA BERHAD (“AAB” OR THE “COMPANY”)

PROPOSED INTERNAL REORGANISATION BY WAY OF A MEMBERS’ SCHEME OF ARRANGEMENT UNDER SECTION 366 OF COMPANIES ACT, 2016

1. INTRODUCTION

On behalf of the Board of Directors of AirAsia Berhad (“**Board**”), RHB Investment Bank Berhad (“**RHB Investment Bank**”) wishes to announce that the Company intends to implement a proposed internal reorganisation by way of a members’ scheme of arrangement under Section 366 of the Companies Act, 2016 (“**Act**”) (“**Scheme**”) comprising the following proposals:-

- (a) the proposed exchange of 3,341,974,080 ordinary shares in AAB (including treasury shares) as at 14 August 2017, being the latest practicable date prior to the date of this announcement (“**LPD**”)(“**AAB Shares**”), representing the entire issued share capital of AAB, with 3,341,974,080 new ordinary shares in AirAsia Group Berhad (“**Newco**”) (“**Newco Share(s)**”), a newly incorporated investment holding company, on the basis of 1 new Newco Share for every 1 existing AAB Share held on an entitlement date to be determined (“**Entitlement Date**”)(“**Proposed Share Exchange**”); and
- (b) the proposed assumption of the listing status of AAB by Newco and the admission of Newco to and withdrawal of AAB from the Official List of Bursa Malaysia Securities Berhad (“**Bursa Securities**”), with the listing of and quotation for Newco Shares on the Main Market of Bursa Securities (“**Proposed Transfer of Listing Status**”).

The Proposed Share Exchange and Proposed Transfer of Listing Status are collectively referred to as the “**Proposed Internal Reorganisation**”.

The Company had also today entered into a conditional scheme agreement with Newco (“**Scheme Agreement**”) for the purpose of the Proposed Internal Reorganisation. The salient terms of the Scheme Agreement are set out in **Section 3** of this announcement.

The Proposed Internal Reorganisation is subject to, amongst others, the approval of the shareholders of AAB at an extraordinary general meeting (“**EGM**”) and a court convene meeting (“**CCM**”). Further details of the Proposed Internal Reorganisation and the relevant approvals required are set out in **Section 2** and **Section 7** of this announcement respectively.

Upon or after completion of the Proposed Internal Reorganisation, the management of the Company will use its best endeavors to further streamline the group structure into separately identifiable business streams (“**Subsequent Streamlining Exercises**”) to better reflect the group's diverse operations and to achieve a leaner corporate structure. The steps to be undertaken for the Subsequent Streamlining Exercises is envisaged to include, amongst others, the following:-

- a) the transfer of the relevant entities held by AAB principally involved in the provision of digital related services to a new holding company to be incorporated (“**Red Venture**”);
- b) the transfer of the intellectual properties and trademarks held at AAB (collectively referred to as “**IPs**”) to a new company to be incorporated (“**AirAsia IP**”) based on an independent valuation to be determined;
- c) the transfer of Red Venture, AirAsia IP and the other relevant entities held by AAB, which are principally involved in the provision of leasing and support activities, to Newco*; and
- d) the transfer of the associate companies held under AirAsia Investment Limited (“**AAIL**”) and involved in regional airline business to Newco, where upon completion thereof, AAIL may be liquidated.

Note:-

- * Excludes Asian Aviation Centre of Excellence Sdn Bhd (“AACE”). AAB had on 25 August 2017 announced that AAB had entered into a share purchase agreement with CAE International Holding Ltd (“CAE”) to dispose all of AAB’s equity interest in AACE to CAE for a total cash consideration of USD100.0 million (equivalent to RM429.3 million based on the exchange rate of USD1 : RM4.293)(“Disposal of AACE”).

For avoidance of doubt, the approval of the shareholders of AAB is not required for the implementation of the Subsequent Streamlining Exercises. However, the Board wishes to highlight that the implementation of the Subsequent Streamlining Exercises will be carried out by the management in stages after taking into account the most effective and efficient tax and financial reporting structure for the group and relevant regulatory compliance.

2. DETAILS OF THE PROPOSED INTERNAL REORGANISATION

2.1 Proposed Share Exchange

Under the Proposed Share Exchange, all shareholders of AAB as at the Entitlement Date (“**Entitled Shareholders**”) will exchange their respective AAB Shares with Newco Shares on the basis of 1 new Newco Share for every 1 existing AAB Share held.

As at LPD, the number of issued shares in AAB is 3,341,974,080 AAB Shares (including treasury shares). Pursuant to the Proposed Share Exchange, the Entitled Shareholders will receive such number of Newco Shares which is equivalent to their respective shareholdings in AAB as at the Entitlement Date, and AAB shall become a wholly-owned subsidiary of Newco.

The new Newco Shares to be issued pursuant to the Proposed Share Exchange will rank *pari passu* in all respects with each other and with the 2 existing Newco Shares. The 2 existing Newco Shares will continue to be held by the existing shareholders of Newco, Jasmindar Kaur a/p Sarban Singh and Ching Koon Kah @ Chin Kon Kah respectively.

Further information on Newco is set out in **Section 4** of this announcement.

2.2 Proposed Transfer of Listing Status

Upon completion of the Proposed Share Exchange, Newco will be the new holding company of AAB and its subsidiaries, jointly-controlled entities and associate companies (“**Group**”) and will assume the listing status of AAB. Accordingly, it is proposed that AAB be delisted from the Official List of Bursa Securities and Newco be admitted to the Official List of Bursa Securities in place of AAB with the listing of and quotation for the entire number of issued shares of 3,341,974,080 Newco Shares on the Main Market of Bursa Securities. The reference price of the newly listed Newco Shares on Bursa Securities shall be the last closing price of AAB Shares on the market day prior to the suspension of trading on Bursa Securities.

3. SALIENT TERMS OF THE SCHEME AGREEMENT

The salient terms of the Scheme Agreement are as follows:-

- (a) On the date the court order sanctioning the Scheme is lodged with the Registrar of Companies or such earlier date as the High Court of Malaya (“**High Court**”) may determine or specify in its order, the Entitled Shareholders to the Proposed Share Exchange will exchange their AAB Shares with Newco Shares on the basis of 1 new Newco Share for every 1 existing AAB Share held on the Entitlement Date in accordance with the terms and conditions of the Scheme Agreement;
- (b) The new Newco Shares to be issued will rank *pari passu* in all respects with each other and with the existing Newco Shares;

- (c) The Proposed Internal Reorganisation will be implemented through the Scheme and the obligations of AAB and Newco under the Scheme Agreement shall be conditional upon all requisite approvals, consents and/or sanctions being obtained on or before the conditional period as set out in the Scheme Agreement, including but not limited to the approvals of Bursa Securities and the shareholders of AAB at an EGM and the CCM as well as the sanction of the High Court for the Scheme;
- (d) On completion of the Proposed Share Exchange, AAB shall become a wholly-owned subsidiary of Newco; and
- (e) On completion of the Proposed Transfer of Listing Status, Newco will assume the listing status of AAB with the listing of and quotation of the Newco Shares representing the entire issued share capital of Newco on the Main Market of Bursa Securities.

4. INFORMATION ON NEWCO

Newco was incorporated in Malaysia under the Act as a public limited company under the name of AirAsia Group Berhad on 24 August 2017 to facilitate the implementation of the Proposed Internal Reorganisation and the Subsequent Streamlining Exercises. As at 24 August 2017, Newco has an issued share capital of RM2, comprising 2 Newco Shares. Newco is currently dormant but is principally intended for investment holding activities.

As at 24 August 2017, the directors of Newco are Jasmindar Kaur a/p Sarban Singh and Ching Koon Kah @ Chin Kon Kah. They hold 1 Newco Share each. During the implementation of the Proposed Share Exchange, Newco's Board of Directors will be appointed to mirror the Board whilst the current nominee directors of Newco shall resign.

As at 24 August 2017, the shareholders and their respective shareholdings in Newco are as follows:-

Shareholders of Newco	Nationality	Direct shareholdings		Indirect shareholdings	
		No. of shares	%	No. of shares	%
Jasmindar Kaur a/p Sarban Singh	Malaysian	1	50	-	-
Ching Koon Kah @ Chin Kon Kah	Malaysian	1	50	-	-

5. RATIONALE FOR THE PROPOSED INTERNAL REORGANISATION

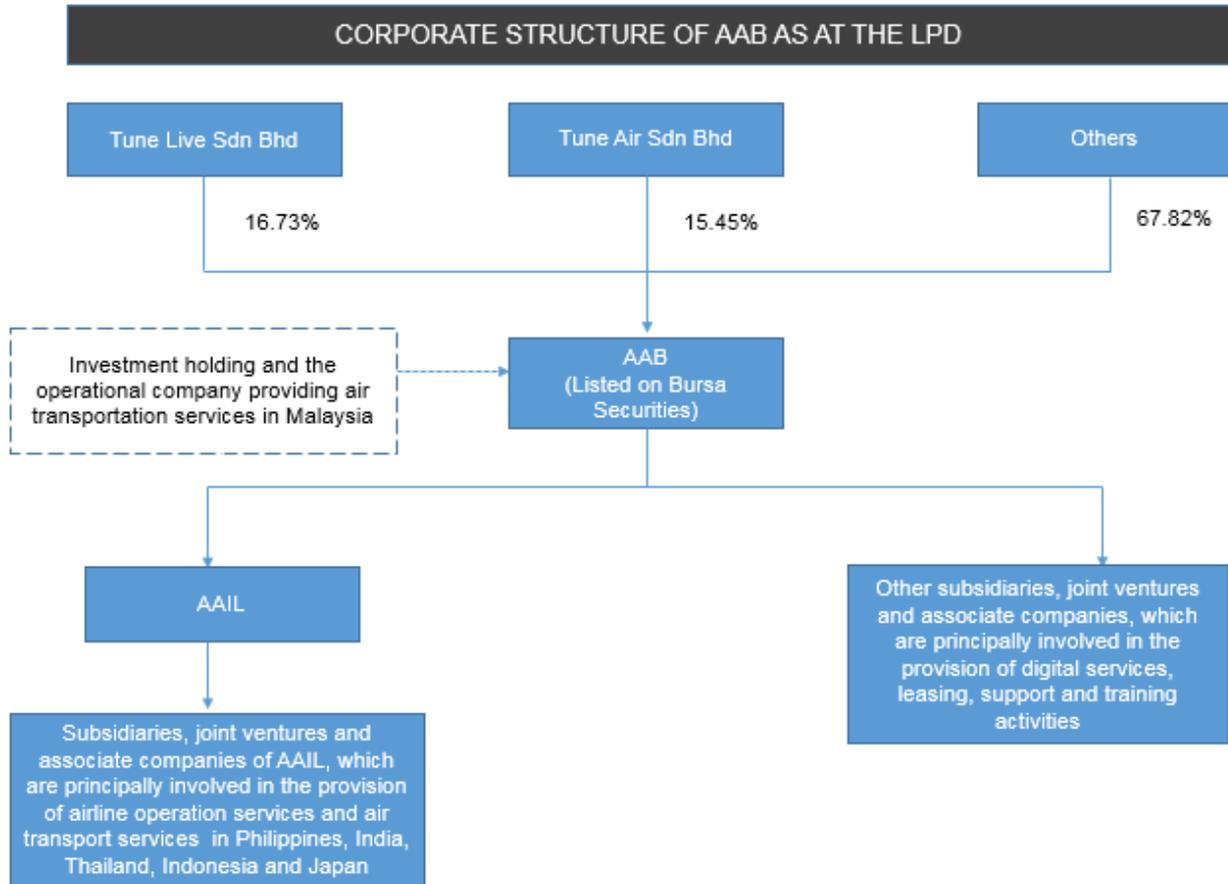
Based on the current corporate structure, AAB is acting as the listed investment holding company of the Group as well as the operating company for the provision of air transportation services in Malaysia. Through the Proposed Internal Reorganisation, the investment holding function and the Malaysian airline business will be separated, wherein Newco will become the investment holding vehicle assuming the listing status of AAB, whilst AAB will continue to operate the Malaysian airline business.

Under the newly established corporate structure, the management of the Company will:-

- (a) have the flexibility to further streamline its Group structure and businesses/operations as management deems fit; and

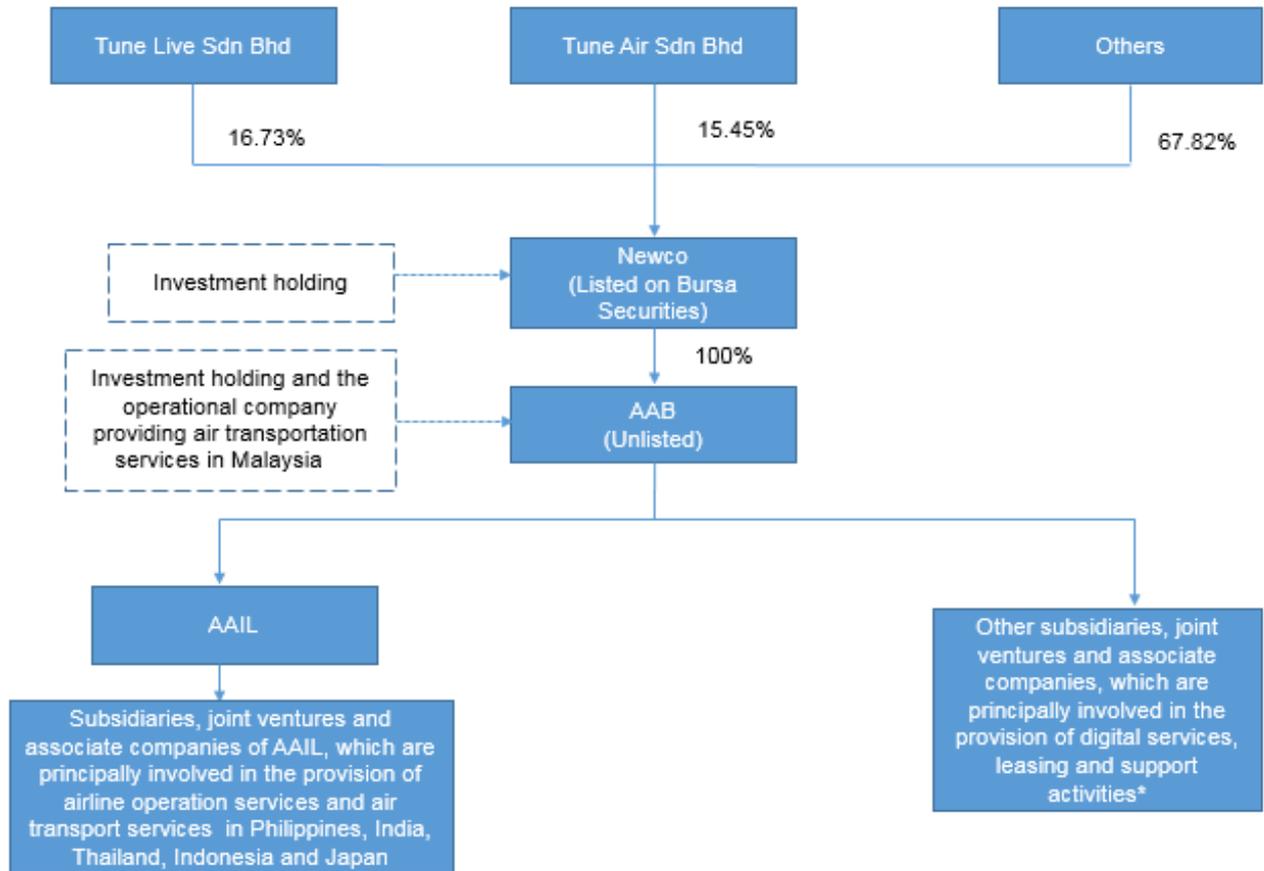
- (b) segregate the listed entity from the current Malaysian airline business as well as the Group's investments. Such structure will also provide ease of supervision and regulation by the management of the Group and the relevant regulators governing the airline industries.

The shareholding structure and corporate structure of AAB Group before and after the Proposed Internal Reorganisation are set out as follows:



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CORPORATE STRUCTURE OF NEWCO UPON COMPLETION OF THE PROPOSED INTERNAL REORGANISATION



Note:-

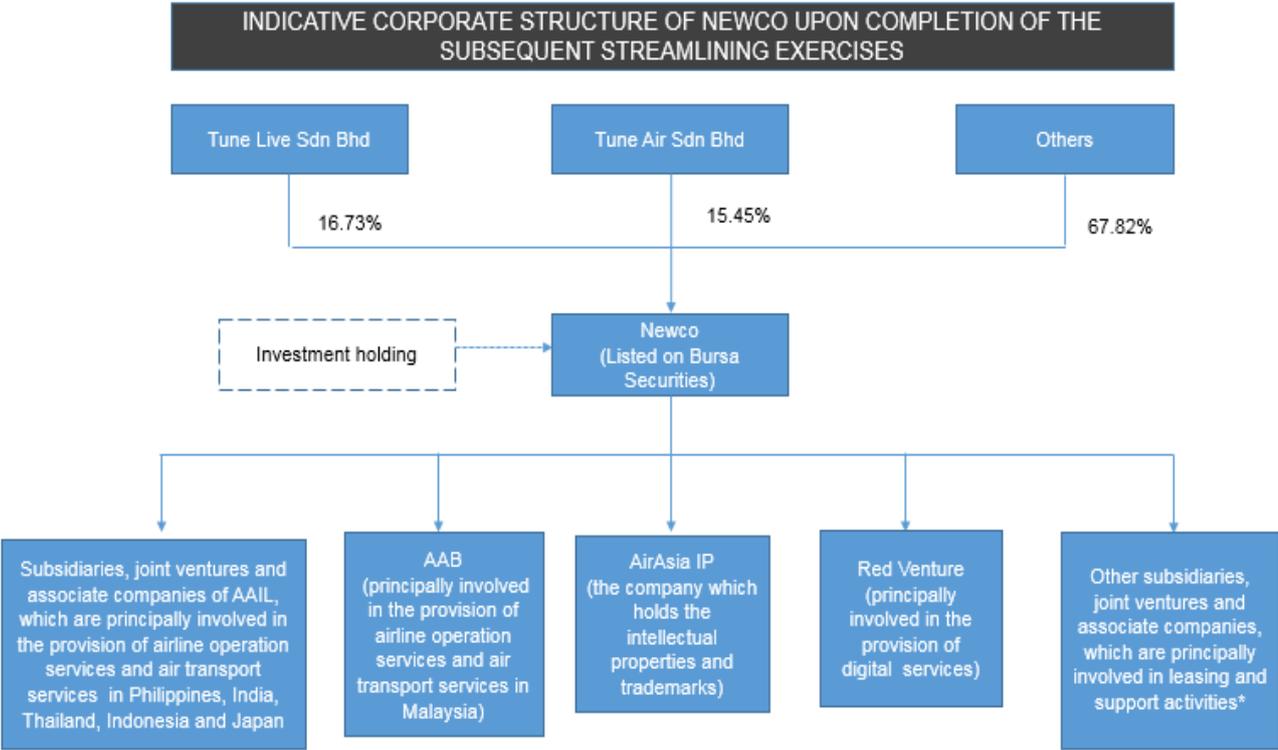
* The Disposal of AACE is expected to be completed by end of November 2017 as set out in the announcement dated 25 August 2017.

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Upon completion of the Proposed Internal Reorganisation, the management of the Company intends to use its best endeavours to further streamline its group structure and business operations through the Subsequent Streamlining Exercises. The Subsequent Streamlining Exercises will enable AAB to achieve, amongst others, the following objectives:-

- (a) to establish a leaner corporate structure with separately identifiable business streams to better reflect the Group's diverse operations; and
- (b) to unlock the value of AAB's investment in its subsidiary, joint venture and associate companies and facilitate future spin-off of its operations/businesses.

The shareholding structure and corporate structure of AAB Group after the Subsequent Streamlining Exercises is set out below:



Note:-

* The Disposal of AACE is expected to be completed by end of November 2017 as set out in the announcement dated 25 August 2017.

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6. EFFECTS OF THE PROPOSED INTERNAL REORGANISATION

6.1 Issued Share Capital

The Proposed Internal Reorganisation will not have any effect on the issued share capital of AAB.

For illustrative purposes, the proforma effects of the Proposed Internal Reorganisation on the issued share capital of Newco are as follows:-

	No. of Newco Shares	RM
Issued share capital as at 24 August 2017	2	2
New shares to be issued pursuant to the Proposed Share Exchange	3,341,974,080	*6,569,929,000
Enlarged issued share capital of Newco	3,341,974,082	6,569,929,002

Note:-

* Based on the latest audited net assets of the Company as at 31 December 2016 of RM6.57 billion after taking into account the Adjustments for Subsequent Events (as defined hereafter).

6.2 Substantial Shareholders' Shareholdings

The Entitled Shareholders will cease to be shareholders of AAB after the Proposed Internal Reorganisation and will hold Newco Shares instead in proportion to their respective shareholdings in AAB on the Entitlement Date.

6.3 Earnings per Share ("EPS")

The Proposed Internal Reorganisation will not have any effect on the consolidated EPS of AAB *vis-à-vis* the consolidated EPS of Newco upon completion of the Proposed Internal Reorganisation in view that the Proposed Share Exchange will be implemented on the basis of 1 new Newco Share for every 1 existing AAB Share held.

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6.4 Net Assets (“NA”) per Share and Gearing

Upon completion of the Proposed Internal Reorganisation, the Newco Group’s NA and gearing will not be significantly different from AAB Group’s NA and gearing prior to the implementation of the Proposed Internal Reorganisation.

For illustrative purposes, the proforma effects of the Proposed Internal Reorganisation on the NA per share and gearing of the enlarged Newco Group based on AAB’s latest audited consolidated financial statements as at 31 December 2016 are as set out below.

	Audited consolidated AAB Group as at 31 December 2016 (RM’000)	Before the Proposed Internal Reorganisation		Proforma 1 After the Proposed Internal Reorganisation		
		⁽¹⁾ Consolidated AAB Group (RM’000)	Newco (RM’000)	Consolidated AAB Group (RM’000)	Newco (RM’000)	Consolidated Newco Group (RM’000)
Share capital	278,297	2,515,438	⁽²⁾ -	2,515,438	⁽⁴⁾ 6,569,929	6,569,929
Share premium	1,230,941	-	-	-	-	-
Treasury shares	(160)	(160)	-	(160)	-	-
Foreign exchange reserve	46,993	46,993	-	46,993	-	46,993
Merger deficit	-	-	-	-	-	⁽⁵⁾ (4,054,651)
Retained earnings	5,294,468	4,893,431	-	⁽³⁾ 4,891,931	-	4,891,931
Other reserves	(217,554)	(217,554)	-	(217,554)	-	(217,554)
NA/Shareholders’ fund	6,632,985	7,238,148	⁽²⁾ -	7,236,648	6,569,929	7,236,648
Number of ordinary shares (‘000)	2,782,974	3,341,974	2	3,341,974	3,341,974	3,341,974
NA per share (RM)	2.38	⁽¹⁾ 2.17	1	2.17	1.97	2.17
Total borrowings (RM’000)	10,579,142	10,579,142	-	10,579,142	-	10,579,142
Gearing	1.59	1.46	-	1.46	-	1.46

Notes:-

(1) After adjusting for the following subsequent events:-

(i) Private placement of 559,000,000 AAB Shares on 26 January 2017 for RM1.80 per AAB Share;

(ii) With effect from 31 January 2017, the concept of “par value” was abolished under the new Act. The amount standing to the credit of the Company’s share premium account is assumed to have become part of the Company’s share capital as at that date; and

(iii) Distribution of approximately RM401.04 million on 23 June 2017 as final dividend for the financial year ended 31 December 2016.

(Collectively referred to as “Adjustments of Subsequent Events”)

(2) Based on the issued share capital of RM2 as at 24 August 2017.

(3) Being the estimated expenses of RM1.5 million in relation to the Proposed Internal Reorganisation.

(4) For illustrative purposes, the enlarged share capital of Newco will be based on the latest audited NA of the Company as at 31 December 2016 of RM6.57 billion after taking into account the Adjustments of Subsequent Events and the value of the existing 2 Newco Shares.

(5) Being the difference between the audited NA of AAB Group as at 31 December 2016 and the share capital value of AAB Shares.

7. APPROVALS REQUIRED

The Proposed Internal Reorganisation is conditional upon the following approvals being obtained:-

- (a) the approval of Bursa Securities for the following:-
 - (i) Proposed Transfer of Listing; and
 - (ii) admission, listing of and quotation for the entire enlarged issued share capital of Newco on the Official List of Bursa Securities;
- (b) the approval of the shareholders of AAB at an EGM and CCM;
- (c) the approval of the Malaysian Aviation Commission for the Proposed Internal Reorganisation;
- (d) the order of the High Court sanctioning the Scheme;
- (e) the approval/consents of the financiers/creditors of AAB, if required; and
- (f) the approval, consent and/or sanction of any other relevant authorities/parties, if required.

The Proposed Share Exchange and Proposed Transfer of Listing Status are inter-conditional.

The Proposed Internal Reorganisation is not conditional upon any other corporate proposals of the Company.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED WITH THEM

None of the Directors and major shareholders of AAB, and persons connected with them have any interest, direct or indirect, in the Proposed Internal Reorganisation other than their respective entitlements, if any, under the Proposed Share Exchange as AAB's shareholders, which are also available to all the other shareholders of AAB on a pro-rata basis.

9. STATEMENT BY DIRECTORS

After taking into consideration the rationale, terms of the Scheme Agreement and effects of the Proposed Internal Reorganisation, the Board is of the opinion that the Proposed Internal Reorganisation is in the best interest of AAB.

10. PRINCIPAL ADVISER

RHB Investment Bank Berhad has been appointed as the Principal Adviser to AAB for the Proposed Internal Reorganisation.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Internal Reorganisation is expected to be completed by first quarter of 2018.

12. EGM AND CCM

A notice for the EGM and CCM together with an explanatory statement/circular to shareholders of AAB explaining the details of the Proposed Internal Reorganisation will be despatched to the shareholders of AAB in due course.

13. DOCUMENT FOR INSPECTION

A copy of the Scheme Agreement is available for inspection at the registered office of the Company at B-13-15, Level 13, Menara Prima Tower B, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

This announcement is dated 29 August 2017.