

AIRASIA BERHAD (“AIRASIA” OR “COMPANY”)

PROPOSED WARRANTS EXCHANGE EXERCISE WITH MALAYSIAN AIRLINE SYSTEM BERHAD (“MAS”)

1. INTRODUCTION

AirAsia had on 9 August 2011 entered into a collaboration agreement with MAS and AirAsia X Sdn Bhd (“**Collaboration Agreement**”).

On behalf of the Board of Directors of AirAsia (“**Board**”), CIMB Investment Bank Berhad (“**CIMB**”) wishes to announce that the Company is proposing to enter into a warrants exchange exercise with MAS (“**Proposed Warrants Exchange**”).

The Proposed Warrants Exchange involves AirAsia issuing free warrants (“**AirAsia Warrants**”) to MAS’s ordinary shareholders and in exchange, MAS will be issuing free warrants (“**MAS Warrants**”) to AirAsia ordinary shareholders.

In accordance with the Proposed Warrants Exchange, AirAsia and MAS will enter into a formal warrants exchange agreement in due course.

To strengthen the collaboration and to further align their respective interests in AirAsia and MAS, Tune Air Sdn Bhd (“**Tune Air**”) and Khazanah Nasional Berhad (“**Khazanah**”), the major shareholders of AirAsia and MAS respectively, have on 9 August 2011 agreed to acquire from each other existing shares of both companies (“**Share Swap**”). As a result, Tune Air will hold 685,142,000 ordinary shares of RM1.00 each in MAS representing 20.50% equity interest in MAS. Khazanah will hold 277,650,600 ordinary shares of RM0.10 each in AirAsia representing 10.00% equity interest in AirAsia.

2. DETAILS OF THE PROPOSED WARRANTS EXCHANGE

2.1 Basis and Number of AirAsia Warrants and MAS Warrants

AirAsia proposes to issue 111,060,240 free AirAsia Warrants to MAS ordinary shareholders in exchange for MAS issuing 274,056,812 free MAS Warrants to AirAsia ordinary shareholders.

The total number of ordinary shares of RM0.10 each in AirAsia (“**AirAsia Shares**”) to be issued assuming full exercise of the AirAsia Warrants is 111,060,240 AirAsia Shares, representing 4.00% of the total number of ordinary shares outstanding of AirAsia as at 5 August 2011, being the last trading day for AirAsia Shares prior to this announcement. The total number of ordinary shares of RM1.00 each in MAS (“**MAS Shares**”) to be issued assuming full exercise of the MAS Warrants is 274,056,812 MAS Shares, representing 8.20% of the total number of ordinary shares outstanding of MAS as at 5 August 2011, being the last trading day for MAS Shares prior to this announcement.

The number of AirAsia Warrants to be issued was fixed at 4.00% of the total number of AirAsia Shares outstanding as at 5 August 2011.

The proposed number of MAS Warrants to be issued was mutually agreed with AirAsia, based on:

- (i) the agreed number of AirAsia Warrants to be issued as a percentage of the total number of AirAsia Shares outstanding as at 5 August 2011, which is fixed at 4.00%; and

- (ii) the ratio of the relative market capitalisations of MAS and AirAsia ordinary shares of RM5,347 million and RM10,967 million respectively, as at 5 August 2011.

The MAS Warrants to be issued will be allocated to AirAsia ordinary shareholders on a pro-rata basis in accordance with their shareholdings in AirAsia on a date to be determined and announced later (“**Entitlement Date**”). Similarly, the AirAsia Warrants to be issued will be allocated to MAS ordinary shareholders on a pro-rata basis in accordance with their shareholdings in MAS as at the Entitlement Date.

For illustrative purposes only, based on the number of ordinary shares outstanding of AirAsia and MAS of 2,776,505,580 AirAsia Shares and 3,342,156,240 MAS Shares as at 5 August 2011 respectively, the approximate number of MAS Warrants and AirAsia Warrants to be received by the shareholders of AirAsia and MAS, respectively are as set out below:

- (i) for AirAsia shareholders, approximately one (1) free MAS Warrant for every ten (10) AirAsia Shares held; and
- (ii) for MAS shareholders, approximately one (1) free AirAsia Warrant for every thirty (30) MAS Shares held.

2.2 Exercise period and exercise price of AirAsia Warrants and MAS Warrants

The MAS Warrants and AirAsia Warrants under the Proposed Warrants Exchange shall have an exercise period of 2.5 years from the date of their issuance.

The exercise prices of the MAS Warrants and AirAsia Warrants shall be fixed based on a 25% premium to the closing share prices of MAS and AirAsia respectively on 5 August 2011 as follows:

	MAS	AirAsia
Market price per share as at 5 August 2011 (RM)	1.60	3.95
Exercise price premium	25%	25%
Exercise price (RM)	2.00	4.94

2.3 Issue price of AirAsia Warrants and MAS Warrants

The AirAsia Warrants are to be issued for free to MAS’s shareholders and the MAS Warrants are to be issued for free to AirAsia’s shareholders.

2.4 Entitlements to the AirAsia and MAS Warrants

The MAS Warrants to be issued under the Proposed Warrants Exchange will be provisionally allotted and issued to the ordinary shareholders of AirAsia whose names appear in the Record of Depositors of AirAsia on the Entitlement Date. In determining the AirAsia shareholders’ entitlement to the MAS Warrants, fractional entitlements, if any, shall be disregarded and dealt with in such manner as the Board of AirAsia shall in its absolute discretion deem fit and expedient.

The AirAsia Warrants to be issued under the Proposed Warrants Exchange will be provisionally allotted and issued to the shareholders of MAS whose names appear in the Record of Depositors of MAS on the Entitlement Date.

2.5 Proposed terms of AirAsia Warrants and MAS Warrants

- (i) The proposed terms of the AirAsia Warrants are set out as follows:

Issue	:	111,060,240 AirAsia Warrants to be issued pursuant to the Proposed Warrants Exchange. AirAsia will not issue fractions of a warrant. The entitlement to the AirAsia Warrants will be rounded down to the nearest whole AirAsia Warrant.
Form and Denomination	:	The AirAsia Warrants shall be issued in registered form and constituted by a deed poll (" AirAsia Deed Poll ").
Exercise Rights	:	Each AirAsia Warrant carries the entitlement to subscribe for one (1) new AirAsia Share at the AirAsia Exercise Price at any time during the Exercise Period, subject to adjustments in accordance with the provisions of the AirAsia Deed Poll.
Exercise Period	:	The AirAsia Warrants can be exercised at any time during the 2.5 year period commencing from and including the date of issue of the AirAsia Warrants up to and including the Expiry Date.
AirAsia Exercise Price	:	RM4.94
Expiry Date	:	The AirAsia Warrants shall expire on the day falling 2.5 years from the issuance date of the AirAsia Warrants. Any AirAsia Warrant which has not been exercised will lapse and cease thereafter to be valid for any purpose.
Listing	:	An application will be made for the listing of and quotation for the AirAsia Warrants and the new AirAsia Shares to be issued upon the exercise of the AirAsia Warrants on the Main Market of Bursa Securities.
Status of the new AirAsia Shares arising from the exercise of the AirAsia Warrants	:	The new AirAsia Shares to be issued upon the exercise of the AirAsia Warrants shall, upon allotment and issue, rank pari passu in all respects with the then existing AirAsia Shares, save and except that they shall not be entitled to any dividends, rights, allotment and/or other distributions, the entitlement date of which is prior to the date of issue of the AirAsia Shares.
Rights of the AirAsia Warrants	:	The AirAsia Warrant holders are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in AirAsia until and unless such AirAsia Warrant holders exercise their AirAsia Warrants into new AirAsia Shares.
Adjustment to AirAsia Exercise Price and/or number of AirAsia Warrants	:	The number of AirAsia Warrants and/or the AirAsia Exercise Price shall from time to time be adjusted in accordance with the terms of the AirAsia Deed Poll.
Board Lots	:	The AirAsia Warrants are tradeable upon listing in board lots of 100 units carrying rights to subscribe for 100 new AirAsia Shares at anytime during the Exercise Period.
Governing Law	:	Laws of Malaysia.

(ii) The proposed terms of the MAS Warrants are set out as follows:

Issue	:	274,056,812 MAS Warrants to be issued pursuant to the Proposed Warrants Exchange.
		MAS will not issue fractions of a warrant. The entitlement to the MAS Warrants will be rounded down to the nearest whole MAS Warrant.
Form and Denomination	:	The MAS Warrants shall be issued in registered form and constituted by a deed poll (" MAS Deed Poll ").
Exercise Rights	:	Each MAS Warrant carries the entitlement to subscribe for one (1) new MAS Share at the MAS Exercise Price at any time during the Exercise Period, subject to adjustments in accordance with the provisions of the MAS Deed Poll.
Exercise Period	:	The MAS Warrants can be exercised at any time during the 2.5 year period commencing from and including the date of issue of the MAS Warrants up to and including the Expiry Date.
MAS Exercise Price	:	RM2.00
Expiry Date		The MAS Warrants shall expire on the day falling 2.5 years from the issuance date of the MAS Warrants. Any MAS Warrant which has not been exercised will lapse and cease thereafter to be valid for any purpose.
Listing	:	An application will be made for the listing of and quotation for the MAS Warrants and the new MAS Shares to be issued upon the exercise of the MAS Warrants on the Main Market of Bursa Securities.
Status of the new MAS Shares arising from the exercise of the MAS Warrants	:	The new MAS Shares to be issued upon the exercise of the MAS Warrants shall, upon allotment and issue, rank pari passu in all respects with the then existing MAS Shares, save and except that they shall not be entitled to any dividends, rights, allotment and/or other distributions, the entitlement date of which is prior to the date of issue of the MAS Shares.
Rights of the MAS Warrants	:	The MAS Warrant holders are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in MAS until and unless such MAS Warrant holders exercise their MAS Warrants into new MAS Shares.
Adjustment to MAS Exercise Price and/or number of MAS Warrants		The number of MAS Warrants and/or the MAS Exercise Price shall from time to time be adjusted in accordance with the terms of the MAS Deed Poll.
Board Lots	:	The MAS Warrants are tradeable upon listing in board lots of 100 units carrying rights to subscribe for 100 new MAS Shares at anytime during the Exercise Period.
Governing Law	:	Laws of Malaysia.

2.6 Utilisation of proceeds

The Proposed Warrants Exchange will not raise any funds for AirAsia as the AirAsia Warrants will be issued for free to the shareholders of MAS.

Nevertheless, AirAsia could subsequently raise proceeds from the exercise of the AirAsia Warrants, the quantum of which would depend on the actual number of AirAsia Warrants exercised by MAS shareholders. These proceeds may be utilised for the repayment of borrowings, to fund the future capital expenditure and/or working capital requirements of AirAsia Group.

3. RATIONALE

The Company has entered into a Collaboration Agreement with MAS on 9 August 2011 to cooperate on a broad range of areas in which AirAsia's and MAS's businesses complement one another.

In line with the Collaboration Agreement, the Proposed Warrants Exchange will provide an opportunity for the alignment of common interests of AirAsia and MAS shareholders by enabling them to participate in the other company's equity at a predetermined exercise price during the tenure of the warrants.

In addition, the proceeds from the exercise of the AirAsia Warrants will strengthen the capital base of the Company and can be utilised for the repayment of borrowings, to fund the future capital expenditure and/or working capital requirements of the AirAsia Group.

4 EFFECTS OF THE PROPOSED WARRANTS EXCHANGE

4.1 Share Capital

The proforma effects of the Proposed Warrants Exchange assuming full exercise of the MAS Warrants on the issued and paid-up share capital of the Company are set out below:

	<u>No. of AirAsia Shares</u> <u>'000</u>	<u>RM</u> <u>'000</u>
Issued and paid-up share capital as at 5 August 2011	2,776,506	277,651
New AirAsia Shares to be issued upon full exercise of the AirAsia Warrants	111,060	11,106
Enlarged issued and paid-up share capital	<u>2,887,566</u>	<u>288,757</u>

The Share Swap will not have any effect on the issued and paid-up share capital of the Company.

4.2

Substantial Shareholders' Shareholdings

Based on the Register of Substantial Shareholders of the Company as at 5 August 2011, the proforma effects of the Share Swap and the Proposed Warrants Exchange on the substantial shareholders' shareholdings in the Company are as follows:

Substantial Shareholders	As at 5 August 2011				Proforma I After the Share Swap			
	Direct		Indirect		Direct		Indirect	
	No. of AirAsia Shares	%	No. of AirAsia Shares	%	No. of AirAsia Shares	%	No. of AirAsia Shares	%
Tune Air Sdn. Bhd.	640,608,382	23.07	-	-	362,957,782	13.07	-	-
Tan Sri Dr. Anthony Francis Fernandes	2,627,010	0.09	640,608,382 ⁽¹⁾	23.07	2,627,010	0.09	362,957,782 ⁽¹⁾	13.07
Dato' Kamarudin bin Meranun	1,692,900	0.06	640,608,382 ⁽¹⁾	23.07	1,692,900	0.06	362,957,782 ⁽¹⁾	13.07
Employees Provident Fund Board ("EPF")	237,469,400	8.55	40,655,600	1.46	237,469,400	8.55	40,655,600	1.46
Genesis Smaller Companies	150,635,581	5.43	-	-	150,635,581	5.43	-	-
Khazanah	-	-	-	-	277,650,600	10.00	-	-
Substantial Shareholders	Proforma II After Proforma I and the Proposed Warrants Exchange				Proforma III After Proforma II and full exercise of the AirAsia Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of AirAsia Shares	%	No. of AirAsia Shares	%	No. of AirAsia Shares	%	No. of AirAsia Shares	%
Tune Air Sdn. Bhd.	362,957,782	13.07	-	-	385,725,130	13.36	-	-
Tan Sri Dr. Anthony Francis Fernandes	2,627,010	0.09	362,957,782 ⁽¹⁾	13.07	2,627,010	0.09	385,725,130 ⁽¹⁾	13.36
Dato' Kamarudin bin Meranun	1,692,900	0.06	362,957,782 ⁽¹⁾	13.07	1,692,900	0.06	385,725,130 ⁽¹⁾	13.36
EPF	237,469,400	8.55	40,655,600	1.46	249,232,847	8.63	40,655,600	1.41
Genesis Smaller Companies	150,635,581	5.43	-	-	150,635,581	5.22	-	-
Khazanah	277,650,600	10.00	-	-	290,506,638	10.06	-	-

Note:
⁽¹⁾ Deemed interested by virtue of Section 6A of the Companies Act, 1965 through a shareholding of more than 15% in Tune Air.

4.3 Net Assets (“NA”) and Gearing

The Proposed Warrants Exchange is not expected to have any material effect on the NA per share and gearing of AirAsia. However, there may be an effect on the NA and gearing of AirAsia resulting from the future increase in the number of new AirAsia Shares in issue when the AirAsia Warrants are exercised into the new AirAsia Shares.

4.4 Earnings per share (“EPS”)

With the adoption of the financial reporting standards which requires the recognition of an expense arising from the issuance of Warrants under the Proposed Warrants Exchange, the future earnings and EPS of the group may be affected accordingly. The quantum of the expense can only be determined at a later date upon the issuance of the warrants.

In addition, the proceeds from the future exercise of the Warrants will be utilised for repayment of borrowings, to fund the future capital expenditure and/or working capital requirements of the group which is expected to contribute positively to the future earnings of the group. The effect of the proceeds from any exercise of Warrants on the group’s EPS would also be dependent on the returns generated by the group from its utilization.

4.5 Convertible Securities

Exercise price for Employee Share Option Scheme (“**ESOS**”) options may be adjusted in accordance with the terms of the ESOS bye-laws, where required.

5. APPROVALS REQUIRED

The Proposed Warrants Exchange is subject to and conditional upon approvals being obtained from the following:

- (i) Bursa Securities, for the following:
 - (a) the admission of the AirAsia Warrants and MAS Warrants to the Official List of Bursa Securities; and
 - (b) the listing of and quotation for the AirAsia Warrants and MAS Warrants as well as the new AirAsia Shares and MAS Shares to be issued arising from the exercise of the AirAsia Warrants and MAS Warrants, on the Main Market of Bursa Securities;
- (ii) Bank Negara Malaysia, for the issuance of the AirAsia Warrants and MAS Warrants to non-resident shareholders;
- (iii) AirAsia’s shareholders for the Proposed Warrants Exchange at an extraordinary general meeting (“**EGM**”) to be convened;
- (iv) MAS’s shareholders for the Proposed Warrants Exchange at an EGM to be convened;
- (v) all relevant parties for MAS to undertake the Proposed Warrants Exchange; and
- (vi) any other relevant authorities and/or parties, if required.

6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED

Save as disclosed below, none of the major shareholders and directors of the Company and/or persons connected with them has any interest, direct or indirect, in the Proposed Warrants Exchange.

6.1 Major shareholders' interests

After the completion of the Share Swap, Tune Air remains as a major shareholder of the Company holding 13.07% of AirAsia Shares. Khazanah will also hold 10.00% of the equity interest in AirAsia and is therefore a major shareholder of the Company. In addition, EPF will also directly and indirectly hold 10.01% of AirAsia Shares and is therefore a major shareholder of the Company. EPF is also a major shareholder of MAS.

As such, Tune Air, Khazanah and EPF ("**Interested Major Shareholder**") are deemed interested in the Proposed Warrants Exchange.

6.2 Directors' interests

By virtue of their interests in shares in the major shareholder of the Company, Tune Air, Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar, Tan Sri Dr. Anthony Francis Fernandes and Dato' Kamarudin bin Meranun are deemed interested in the Proposed Warrants Exchange.

Accordingly, Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar, Tan Sri Dr. Anthony Francis Fernandes and Dato' Kamarudin bin Meranun (collectively referred to as the "**Interested Directors**") have abstained from deliberating and voting on the Proposed Warrants Exchange at the relevant Board meetings.

The Interested Major Shareholders and Interested Directors, together with any persons connected with them, shall abstain from voting in respect of their direct and/or indirect shareholdings in AirAsia on the relevant resolutions pertaining to the Proposed Warrants Exchange at AirAsia's EGM to be convened. The Interested Directors have abstained and will continue to abstain from deliberating and voting on the Proposed Warrants Exchange at the relevant Board meetings.

7. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposed Warrants Exchange to be completed by the first quarter of 2012.

8. ESTIMATED TIMEFRAME FOR SUBMISSION TO AUTHORITIES

Application(s) to the relevant authorities for the Proposed Warrants Exchange are expected to be submitted within three (3) months from the date of this announcement.

This announcement is dated 9 August 2011.