

Type : Announcement
Subject : (a) Services for AirAsia X Sdn Bhd (b) Services for Taiwan operations

Contents:

1. Introduction

AirAsia Berhad (“AirAsia” or “the Company”) had on 31st October 2007 entered into a Services Agreement (“the Agreement”) with AirAsia X Sdn Bhd (“AAX”). The purpose of the Company entering into the Agreement is to govern the relationship between the parties pertaining to the list of airline services which are provided by the Company to AAX to support AAX’s Budget Long Haul Service (“the Services”).

The parties had on 28th November 2008 entered into a Renewal of Fee Schedule Agreement (“the Renewal Agreement”) where the Parties agreed to the revision of the scope and pricing of Services by AirAsia.

AirAsia hereby wishes to announce that it has today entered into:-

- (i) an Amendment Agreement to the Agreement (“Amendment Agreement”) to revise the Renewal Agreement to reflect a reduction in scope of certain Services and the cessation of other Services currently provided under the Renewal Agreement; and
- (ii) a Commercial Services Agreement for Taiwan (“Taiwan Commercial Services Agreement”) with AAX in respect of shared facilities provided by AAX in Taiwan, China, which include airport office rental, utilities, staff payroll and other operational facilities.

Collectively all the Amendment Agreement and the Taiwan Commercial Services Agreement shall be referred to as “the Agreements”.

2. Details of AAX

AAX was incorporated on 19th May 2006 and had its name changed from Fly Asian Xpress Sdn Bhd to AirAsia X Sdn Bhd on 21st September 2007. AAX is principally engaged in the provision of long haul air transportation services. AirAsia is holding the entire 42,666,667 Redeemable Convertible Preference Shares Series I of RM1.00 each in AAX.

Both Dato’ Sri Dr. Anthony Francis Fernandes and Dato’ Kamarudin Bin Meranun, the Directors and major shareholders of the Company are also Directors of AAX. The current major shareholder of AAX is Aero Ventures Sdn Bhd, a company in which both Dato’ Sri Dr. Anthony Francis Fernandes and Dato’ Kamarudin Bin Meranun (“Related Parties”) are substantial shareholders each having direct and indirect interest of 31.48% and 54.11% respectively.

By virtue of this shareholding, the entering into the Agreements is deemed to be a related party transaction.

3. Salient terms of the Amendment Agreement

The Company agrees to provide limited Services to AAX as listed under the Amendment Agreement. Services which are not specified therein are deemed to have ceased from being provided. The duration of the Amendment Agreement is for a period of one (1) year.

The Company also agrees to provide ad-hoc services to AAX and that the aggregate value of these ad-hoc services shall be in the region of RM1.6 million per annum.

The fees to each of the Services are provided in the Amendment Agreement.

The range of Services provided to AAX are as follows:-

1. AirAsia Insure
2. Airport Policy
3. Commercial
 - (a) Sales and Distribution
 - (b) Sales Support
 - (c) Direct Channel (web team)
 - (d) Branding and Creative
 - (e) Web Team
4. Innovation, Commercial and Technology
5. Treasury
 - (i) Fuel Procurement
 - (ii) Fuel Hedging
6. Audit & Consulting Services
 - (i) Credit Card Fraud Control Unit
 - (ii) Internal Audit
 - (iii) Corporate Integrity
7. Security
8. Manager, Operations and Processes

The projected consideration sum in relation to the services provided in the Amendment Agreement shall be RM41,321,626.00

4. Salient Terms of the Taiwan Commercial Services Agreement

AAX had agreed to provide certain aviation services to the Company for the purpose of the Company's operations at the Taoyuan International Airport. The services include the use of airport office premises, utilities, staff payroll, airport management and group handling and government and regulatory liaison. The duration of the Taiwan Commercial Services Agreement is for a period of one (1) year.

The fees applicable to the Company are provided in the Taiwan Commercial Services Agreement which is projected to be RM156,251.00.

5. Rationale for entering into the Amendment Agreement

The rationale for providing the Services are:-

- (a) to ensure that the AirAsia brand granted for use by AAX under the Brand License Agreement of 20th July 2007 remains protected by ensuring the quality and service level is of the same high standards set and practised by the Company.
- (b) AirAsia has the capacity to offer its services to AAX and this becomes an additional source of income to AirAsia.

6. Rationale for entering into the Taiwan Commercial Services Agreement

By virtue of AAX's existing operations in Taiwan, AAX has excess capacity in the form of personnel and office premises to extend to AirAsia at fair, reasonable and normal commercial terms.

7. Financial effect of entering into the Agreements

Entering into the Agreements will not create any material financial impact in the current financial year nor will it have any effect on the share capital and substantial shareholders' shareholdings of AirAsia. It is also not expected to have material effect on the net assets per share, earnings per share and gearing of AirAsia for this financial year ending 31 December 2011.

8. Financial Risks

The financial risks in entering into the Amendment Agreement are expected to be very limited because the Company will not be investing in any specialised or expensive equipment other than what it currently is having or acquiring for its own operational needs. There are also limited risks in entering into the Taiwan Commercial Services Agreement.

9. Directors' and major shareholders' interests

The Related Parties are deemed interested in the Agreements. They have previously abstained and will continue to abstain from all Board and management deliberations in respect of the Agreements and provision of the Services.

The Related Parties' direct and indirect shareholdings in AirAsia as at 13 May, 2011 are as set out in the table below:-

	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
1. Dato' Sri Dr Anthony Francis Fernandes	2,627,010	0.09	729,458,382*	26.28
2. Dato' Kamarudin bin Meranun	1,692,900	0.06	729,458,382*	26.28

Note:

** deemed interested by virtue of Section 6A of the Companies Act, 1965 through a shareholding of more than 15% in Tune Air Sdn Bhd*

Save as disclosed no other directors and/or major shareholders of AirAsia and/or persons connected with them have any interest, whether directly or indirectly, in the Agreements.

10. Audit Committees' opinion

The Audit Committee having considered all the relevant factors in respect of the Agreements is of the opinion that entering into the Agreements is in the best interest of the Company as the Agreements entered or to be entered are fair, reasonable and on commercial terms which are not detrimental to the interest of the minority shareholders, due to the reasons stated in the rationale above.

11. Directors' opinion

Save for the above interested directors (who have abstained), the Board having considered all the relevant factors in respect of the Agreements is of the opinion that entering into the Agreements is in the best interest of the Company, are entered into under fair, reasonable and normal commercial terms and is not detrimental to interest of minority shareholders.

12. Highest Percentage Ratio

The highest percentage ratio applicable to the Amendment Agreement is 1.14% and the highest percentage ratio applicable to the Commercial Services Agreement is 0.004%. The highest aggregated percentage ratio for all the transactions between the Company and the Related Parties and/or persons connected with them pursuant to Paragraph 10.12(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 1.31%.

13. Total Amount Transacted for the preceding 12 months

The total amount transacted between the Company and the Related Parties and /or persons connected with them for the preceding twelve (12) months was RM80,366,030.61.

14. Approval required

AirAsia does not require the approval of its shareholders or any authorities to enter into the Agreements.

15. Documents available for inspection

The Agreements which are signed today are available for inspection at the registered office of the Company at 25-5, Block H, Jalan PJU 1/37, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia during normal business days from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 13th day of May 2011.