

AIRASIA GROUP BERHAD (“AAGB” OR THE “COMPANY”)

PROPOSED ESTABLISHMENT OF A LONG TERM INCENTIVE SCHEME FOR ELIGIBLE EMPLOYEES AND DIRECTORS OF AAGB AND ITS SUBSIDIARIES (“PROPOSED LTIS”)

1. INTRODUCTION

On behalf of the board of directors of AAGB (“**Board**”), RHB Investment Bank Berhad (“**RHB Investment Bank**”) wishes to announce that the Company proposes to establish and implement a long term incentive scheme for eligible employees and directors of AAGB and its subsidiaries (excluding dormant subsidiaries) (collectively referred to as, “**AAGB Group**” or “**Group**”) which consists of an employee share option scheme (“**Proposed ESOS**”) and a share grant scheme (“**Proposed SGS**”) (collectively referred to as, the “**Proposed LTIS**”).

2. DETAILS OF THE PROPOSED LTIS

The Proposed LTIS involves the establishment of a long term incentive scheme of up to 10% of the total number of issued shares of the Company (excluding treasury shares, if any) at any one time throughout the duration of the Proposed LTIS for the employees and directors of the Group who are eligible in accordance with the by-laws governing the Proposed LTIS and subject to such Proposed LTIS not contravening any foreign laws, regulatory requirements and/or administrative constraints in the respective countries (“**By-Laws**”) (“**Eligible Person(s)**”).

In the event that any foreign laws, regulatory requirements and/or administrative constraints prevent or restrict the ability of AAGB to allow the eligible employees of overseas subsidiaries to participate in the Proposed LTIS, an alternative, i.e. a cash settled performance based scheme may be made available to them.

The Proposed LTIS will be administered by a committee to be appointed and duly authorised by the Board in accordance with the By-Laws (“**LTIS Committee**”) and will comprise the following:

(i) **Proposed ESOS**

The Proposed ESOS is intended to allow the Company to reward selected eligible employees and directors (excluding non-executive directors), primarily key senior and critical junior talents, of the Group by granting them an option to subscribe for new ordinary shares in AAGB (“**AAGB Shares**”) at a pre-determined specified exercise price (“**ESOS Option**”), subject to the terms and conditions of the By-Laws.

An award of ESOS Options (“**ESOS Award(s)**”) once accepted by the Eligible Person (“**ESOS Grantee(s)**”), will be vested on a 3 year cliff vesting, i.e. 100% will be vested at the end of the 3 years from the grant date over the duration of the Proposed LTIS, subject to certain performance conditions, as may be determined by the LTIS Committee in accordance with the By-Laws and approved by the Board, which includes, but is not limited to, the AAGB’s share price performance. The ESOS Awards when vested and exercised under the Proposed ESOS will be satisfied by the allotment and issuance of new AAGB Shares.

The price at which an ESOS Grantee shall be entitled to subscribe for each new AAGB Share upon the exercise of an ESOS Option (“**Exercise Price**”) shall be based on the 5-day volume-weighted average market price (“**VWAP**”) of AAGB Shares immediately preceding the date of the ESOS Award, with a discount of not more than 10% or such other percentage of discount as may be permitted by Bursa Malaysia Securities Berhad (“**Bursa Securities**”) and/or any other relevant authorities from time to time.

(ii) Proposed SGS

The Proposed SGS is intended to allow the Company to award AAGB Shares (“**SGS Award(s)**”) to selected senior employees of the Group, subject to certain performance conditions as set out in AAGB’s annual bonus scheme, and as prescribed by the LTIS Committee, in lieu of cash bonus.

An SGS Award, once accepted by the Eligible Person (“**SGS Grantee(s)**”), will vest in the SGS Grantee at no cost to the SGS Grantee if the vesting conditions stipulated in the said SGS Award have been satisfied on the vesting date(s). An SGS Award under the Proposed SGS may be granted on a staggered basis over the duration of the Proposed LTIS.

The vesting of AAGB Shares under the Proposed SGS will be satisfied by the allotment and issuance of new AAGB Shares and/or by way of cash settlement based on the discretion of the LTIS committee.

In the case of settlement by way of cash, the reference price used to determine the amount to be paid to the SGS Grantee will be based on the market value of the AAGB Shares after taking into account, amongst others, the 5-day VWAP of AAGB Shares immediately preceding the SGS vesting date(s).

Further, the LTIS Committee may from time to time, within the Proposed LTIS period, have full discretion to determine the composition of the corporations within the Group to be eligible to participate in the Proposed LTIS. At the discretion of the LTIS Committee, the Company may from time to time, within the Proposed LTIS period, invite Eligible Persons to participate in the Proposed LTIS. This is subject to the terms and conditions in accordance with the By-Laws.

The other salient terms of the Proposed LTIS are as follows:

2.1 Maximum number of AAGB Shares available under the Proposed LTIS

The maximum number of AAGB Shares that may be issued under the Proposed LTIS, and any other employee share scheme of the Company which may be implemented from time to time by AAGB, shall not exceed 10% of the total number of AAGB Shares (excluding treasury shares, if any) at any point in time throughout the duration of the Proposed LTIS.

2.2 Basis of allocation and maximum allowable allotment

The allocation of AAGB Shares to be made available for the ESOS Awards and SGS Awards (any one of them is referred to as, the “**LTIS Award**” and collectively, “**LTIS Awards**”) under the Proposed LTIS shall be determined by and at the sole discretion of the LTIS Committee.

The aggregate number of AAGB Shares that may be allocated to any class or grade of Eligible Persons under the Proposed LTIS shall be determined at the absolute discretion of the LTIS Committee, after taking into consideration, amongst others:

- (i) in the case of an Eligible Person who is an employee of the Group, the Eligible Person’s performance, seniority (denoted by employee job grade), length of service and their contribution to the performance of the Group;
- (ii) in the case of an Eligible Person who is a director of the Group, the Eligible Person’s contribution towards the performance of the Group and positions in the various board committees of the Company; and
- (iii) any other criteria which the LTIS Committee deems appropriate and relevant.

Notwithstanding the above, the maximum number of AAGB Shares that may be offered to an Eligible Person shall be subject to the following:

- (i) not more than 10% of the total number of AAGB Shares to be made available under the Proposed LTIS shall be allocated to any Eligible Person who, either singly or collectively through persons connected with the Eligible Person, holds 20% or more of the total number of AAGB Shares; and
- (ii) not more than 80% of the new AAGB Shares available under the Proposed LTIS shall be allocated in aggregate to the directors and senior management of the Group.

The directors and senior management of the Group shall not participate in the deliberation or discussion of his/her own allocation under the Proposed LTIS.

The LTIS Committee shall have the discretion in determining:

- (i) whether the allocation available shall be awarded in 1 single LTIS Award, or several separate and independent LTIS Awards; and
- (ii) where the allocation is awarded in several separate and independent LTIS Awards, the number of AAGB Shares comprised in each LTIS Award as well as the vesting date(s) and vesting conditions for each LTIS Award, if any.

2.3 Eligibility

Any employee or director of the Group is eligible to participate in the Proposed LTIS if, as at the date of the LTIS Award:

- (i) he/she is a Malaysian citizen;
- (ii) he/she is at least 18 years of age;
- (iii) he/she is neither an undischarged bankrupt nor subject to any bankruptcy proceedings;
- (iv) in respect of an Eligible Person who is an employee or an executive director of the Group, he/she shall also fulfil the following additional criteria as at the date of LTIS Award:
 - (a) he/she has been employed on a full time basis or is serving in a specific designation under an employment contract with, and is on the payroll of, any company in the Group;
 - (b) he/she is a confirmed employee;
 - (c) he/she remains an employee of the Group and has not given any notice of resignation or received a notice of termination or has otherwise ceased or had his/her employment terminated;
 - (d) he/she falls within any other eligibility criteria as may be determined by the LTIS Committee in accordance with the By-Laws; and
 - (e) he/she is also required to be an executive director or an employee of any subsidiary in the Group (excluding dormant subsidiaries) holding a senior position or such position as may be designated by the LTIS Committee. For the avoidance of doubt, non-executive directors will not be eligible for the LTIS Awards.

Where a specific allocation of ESOS Options and/or AAGB Shares is proposed to be made pursuant to a LTIS Award to the directors, major shareholders, chief executive and/or persons connected with them, the specific allocation of AAGB Shares to be comprised in any LTIS Award to the said person must be approved by the shareholders of the Company in a general meeting.

2.4 Duration of the Proposed LTIS

The Proposed LTIS will be in force for a period of 6 years commencing from the effective date of implementation of the Proposed LTIS ("**Effective Date**"), which shall be a date following the full compliance with all relevant provisions of the Main Market Listing Requirements of Bursa Securities ("**Listing Requirements**") in relation to the Proposed LTIS, to take into account several tranches of granting and vesting schedules anticipated by the management of AAGB.

The Proposed LTIS may be extended for a further period of up to 4 years immediately from the expiry of the first 6 years at the discretion of the Board upon the recommendation of the LTIS Committee. Any extension of the Proposed LTIS shall not, in aggregate with the initial term, exceed 10 years from the effective date of implementation of the Proposed LTIS, or such longer period as may be allowed by Bursa Securities and/or any other relevant authorities.

On expiry of the Proposed LTIS, any LTIS Awards which have yet to be vested (whether fully or partially) or ESOS Options which have been vested but remained unexercised, shall be deemed terminated and be null and void.

The Proposed LTIS may be terminated by the LTIS Committee at any time without having to assign any reason before the date of expiry of the Proposed LTIS, provided that the Company makes an announcement immediately of the termination to Bursa Securities.

2.5 Ranking of the new AAGB Shares to be issued under the Proposed LTIS

The new AAGB Shares shall, upon allotment and issuance, rank pari passu in all respects with the existing AAGB Shares in issue, save and except that the new AAGB Shares will not be entitled to any dividends, rights, allotment and/or other distributions that may be declared, made or paid for which the relevant entitlement date is prior to the date of allotment and issuance of the new AAGB Shares.

2.6 Listing and quotation of the new AAGB Shares

An application will be made to Bursa Securities for the listing of and quotation for such number of new AAGB Shares, representing up to 10% of the total number of issued shares of AAGB to be issued pursuant to the Proposed LTIS on the Main Market of Bursa Securities.

2.7 Retention period

The new AAGB Shares to be allotted and issued to the Eligible Persons pursuant to the Proposed LTIS, will not be subjected to any retention period unless the LTIS Committee stipulates otherwise upon granting of the LTIS Awards.

2.8 Alteration of share capital and adjustment

In the event of any alteration in the share capital of the Company during the period of the Proposed LTIS (whether by way of a rights issue, bonus issue or other capitalisation issue, consolidation or subdivision of AAGB Shares or reduction or any other variation of capital), the LTIS Committee may, at its discretion, determine whether:

- (i) in respect of the Proposed ESOS, the Exercise Price and/or the number of unexercised ESOS Options; and

- (ii) in respect of the Proposed SGS, the number of AAGB Shares comprised in unvested SGS Awards,

shall be adjusted and, if so, the manner in which such adjustments should be made.

Save as provided for in the By-Laws, the external auditors or the principal adviser (which must be a principal adviser under the Guidelines on Submission of Corporate and Capital Market Product Proposals issued by the Securities Commission Malaysia) selected by the directors of AAGB (acting as an expert and not as an arbitrator) must confirm in writing that the adjustments are in their opinion fair and reasonable.

3. UTILISATION OF PROCEEDS

The Company will receive proceeds from the exercise of the ESOS Options by the ESOS Grantees. However, the amount of proceeds to be received cannot be determined at this juncture as it will depend on, amongst others, the number of ESOS Options granted and exercised at the relevant point in time and the Exercise Price. The proceeds from the exercise of the ESOS Options will be used, amongst others, for the Group's working capital purposes, including but not limited to payment of trade and other payables, employee costs, marketing and administrative expenses. Such proceeds are expected to be utilised within a period of 12 months, as and when received throughout the duration of the Proposed LTIS.

The Company will not receive any proceeds pursuant to the issue of AAGB Shares to the SGS Grantees under the Proposed SGS, as the SGS Grantees will not be required to pay for the new AAGB Shares to be issued to them pursuant to the SGS Awards.

4. RATIONALE FOR THE PROPOSED LTIS

The Proposed LTIS is intended to align the motivation of the Eligible Persons to the corporate goals of the Group and the shareholders' interests, by allowing them to participate in the scheme and benefit from the increase in the share price of the Company.

The Proposed LTIS is intended to achieve the objectives set out below:

- (i) enable AAGB to pay competitively in the market to attract the best talent to drive the transformation of the Company;
- (ii) retain and reward the Eligible Persons based on their performance to create a high performance culture;
- (iii) create a good balance between the various components of the employee compensation scheme with the Proposed LTIS driving the long-term shareholder value creation;
- (iv) driven by our need to control cost over the next few years, the Proposed LTIS scheme allows AAGB to compensate Eligible Persons through shares, in lieu of their cash bonuses to some extent thereby saving cost in the short term;
- (v) the vesting conditions of the share options will ensure that the Eligible Persons will stand to benefit only if the share price reaches a certain threshold ensuring the shareholders' interests are protected; and
- (vi) the Proposed LTIS will also ensure that the leadership of all the AirAsia Group companies strive towards collaboration and creating synergies between the various lines of businesses to maximise shareholder value.

5. FUND RAISING EXERCISE IN THE PAST 12 MONTHS

For information purposes, the Company had on 21 January 2021 announced its proposal to undertake a proposed private placement which entails the issuance of up to 668,394,816 AAGB Shares ("**Placement Shares**"), representing up to 20% of the total number of issued shares of the Company ("**Private Placement**").

The Private Placement will be undertaken in accordance with the general mandate pursuant to Sections 75 and 76 of the Companies Act 2016 and the "Additional Temporary Relief Measures to Listed Issuers" announced by Bursa Securities on 16 April 2020 which increased the limit prescribed under Paragraph 6.03 of the Listing Requirements of Bursa Securities from 10% to 20%.

Bursa Securities had, vide its letter dated 3 February 2021, approved the listing of and quotation for the Placement Shares pursuant to the Private Placement.

The Company had on 10 February 2021 ("**Price-Fixing Date**") fixed the issue price for the first tranche of the Placement Shares, at RM0.675 per Placement Share ("**First Tranche**"). The First Tranche will comprise up to 369,846,852 Placement Shares.

The issue price of RM0.675 per Placement Share represents a discount of 9.82% to the 5-day VWAP of AAGB Shares up to and including 9 February 2021, being the market day immediately before the Price-Fixing Date, of RM0.7485 per AAGB Share.

For information purposes, the actual number of Placement Shares to be placed out under the First Tranche will depend on the final acceptance by the identified placees. Any Placement Share not placed out under the First Tranche will be included in the subsequent tranches. The issue price for each subsequent tranche will be determined and announced by the Board separately in due course.

The Private Placement is expected to be implemented in tranches and completed by the 1st quarter of 2021.

Save for the Private Placement, the Company has not undertaken any other equity fund raising exercises in the past 12 months.

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6. INDUSTRY OUTLOOK AND PROSPECTS

6.1 Overview and outlook of the Malaysian economy

The Malaysian economy recorded a negative growth of 3.4% in the fourth quarter (3Q 2020: -2.6%), largely attributable to the imposition of the Conditional Movement Control Order (“**CMCO**”) on a number of states since mid-October. The restrictions on mobility, especially on inter-district and inter-state travel, weighed on economic activity. Nevertheless, the continued improvement in external demand provided support to growth. Consequently, except for manufacturing, all economic sectors continued to record negative growth. On the expenditure side, moderating private consumption and public investment activities weighed on domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a decline of 0.3% (3Q 2020: +18.2%).

Domestic demand recorded a decline of 4.4% in the fourth quarter of 2020 (3Q 2020: -3.3%), mainly due to the subdued private consumption and public investment activities. Net exports grew by 12.4% (3Q 2020: 21.9%), with continued expansion in manufactured exports.

Private investment recorded a smaller decline of 7.0% (3Q 2020: -9.3%), mainly supported by continued capital spending in existing projects, particularly in the export-oriented industries. Meanwhile, public investment registered a larger decline of 19.8% (3Q 2020: -18.6%). This reflects lower spending on fixed assets by the general government and weaker demand in most sectors which continued to weigh on capital spending by public corporations.

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (“**CPI**”), was slightly lower at -1.5% during the quarter (3Q 2020: -1.4%). This was mainly due to lower inflation for rental and communication services respectively as well as the larger annual decline in retail fuel prices. These were partly offset by higher inflation in other categories, in particular, transport services and food.

The lower inflation for communication services followed the lapse in the base effect of higher fixed telephone line call charges introduced in 2019. The lower rental inflation reflects weak demand for housing as income remained weak, as well as the new work arrangements and border closures. Retail fuel prices declined at an annual rate of 19.2% in the fourth quarter (-18.8% in 3Q 2020) although they were relatively stable on a quarterly basis. Following the lower inflation for communication services and rental, core inflation moderated to 0.8% during the quarter (3Q 2020: 1.0%).

For Malaysia, the momentum in economic recovery was affected by the resurgence in COVID-19 cases and the introduction of targeted containment measures in several states in the fourth quarter. While there were minimal restrictions on production capacity, the movement restrictions implemented in selected states partly affected domestic demand during the quarter.

Conditions in the domestic financial markets improved in the fourth quarter of 2020, as positive global developments buoyed investor sentiments. Of significance, investor risk appetite improved during the quarter amid positive developments on the approval and deployment of COVID-19 vaccines and greater clarity on US policy direction following the outcome of the US presidential election.

As a result, the domestic financial markets experienced broad-based improvements across asset markets, in line with the regional trend. In the fourth quarter of 2020, domestic financial markets experienced continued non-resident portfolio inflows, which led to an appreciation of the ringgit against the US dollar by 3.6% amid broad US dollar weakening. These inflows were mainly into the domestic bond market, which contributed to the decline of the 3-year, 5-year and 10-year MGS yields by 11.0, 13.4 and 1.0 basis points, respectively. While Fitch Ratings downgraded Malaysia’s sovereign rating to BBB+ in December 2020, the impact to the domestic bond market from this downgrade was muted.

For 2021, while near-term growth will be affected by the re-introduction of stricter containment measures, the impact, however, will be less severe than that experienced in 2020. The growth trajectory is projected to improve from the second quarter onwards. The improvement will be driven by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures including PENJANA, KITA PRIHATIN, 2021 Budget and PERMAI, and higher production from existing and new facilities in the manufacturing and mining sectors. The vaccine rollout from February onwards is also expected to lift sentiments.

The balance of risks remains tilted to the downside, stemming mainly from ongoing uncertainties surrounding the dynamics of the pandemic and potential challenges that might affect the rollout of vaccines both globally and domestically.

In line with earlier assessments, the average headline inflation was negative at -1.2% in 2020 due mainly to the substantially lower global oil prices. For 2021, headline inflation is projected to average higher, primarily due to higher global oil prices. Underlying inflation, as measured by core inflation, is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.

(Source: Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, BNM Quarterly Bulletin, Bank Negara Malaysia)

6.2 Overview and outlook of the aviation industry in Malaysia

Following the vaccine rally in November, airline shares with the exception of European airlines underperformed wider equity markets in December. While the expectation of fast rollout of vaccines is reflected positively in European carriers, Asia-Pacific airline shares declined as the resurgence of the virus halted the recovery in demand in main Asian markets.

Overall, global airline shares ended the year 2020 down by 30% diverging from the wider equity markets (+14.1%) as the pandemic caused travel demand to plummet. 2021 will also be a challenging year for airlines. The widespread availability of vaccines and implementation of successful testing regimes will be key for the recovery in travel demand and share prices.

The industry continued to burn cash in the 3rd quarter of 2020. Net cash outflow from operating activities rose to 51% of revenues as the decline in operating costs was not enough to compensate for the revenue loss. Capital expenditures rose to 14% of revenues although airlines were deferring aircraft deliveries. Among all regions, Asia-Pacific was in a relatively better position in limiting free cash outflow.

Looking forward, airlines will continue to suffer from subdued demand and turning cash positive will be the key target for the industry. We see a possibility of turning cash positive at aggregate level in the 4th quarter of 2020 but until then further support for survival from governments will be critical for survival.

Airlines in all regions posted sharp declines (-80%) in passenger revenues in the 3rd quarter of 2020 as the recovery in air travel demand was limited, and airlines aimed to stimulate demand by lowering fares.

(Source: Airlines Financial Monitor, December 2020, Economic Reports, International Air Transport Association)

During the pandemic, international travelling was halted globally due to the travel restrictions that were implemented by governments to curb the spread of the pandemic. Hence, any improvement to the connectivity score would depend on the lifting of the international travel restrictions not just in Malaysia, but also in countries that are connected to Malaysia.

In light of the economic downturn and reluctance of countries worldwide to lift their border controls, the seat capacity recovery to pre-pandemic levels is expected to take a longer time i.e. beyond 2020 and would also depend on the development of vaccines to restore passenger confidence.

(Source: Malaysian Aviation Industry Outlook, December 2020, Waypoint Reports, Malaysian Aviation Commission)

6.3 Impact of COVID-19 on AAGB

The year 2020 started on an extremely challenging note, with the COVID-19 outbreak causing major disruption to travel globally. Restrictions imposed by governments left AAGB with no alternative but to temporarily suspend the Group's flights. From the end of March till the end of April, the Group's entire fleet was in hibernation, save for rescue flights to assist national efforts to repatriate citizens or to transport medical supplies and other essential items. As of end May, with relaxation of travel restrictions, AAGB started resuming domestic flights on a staggered basis. Supporting the Malaysian Government's efforts to revive domestic tourism and stimulate the economy, the Group offered various promotions, with positive results reflecting pent-up demand. During the 3rd quarter of 2020, the Group achieved an overall load factor of 66%, and 68% for the Malaysian operations despite an increase in capacity of 733% from the preceding quarter. Correspondingly, the Group's revenue increased to RM387.28 for the 9 months financial period ending ("FPE") 30 September 2020, compared to RM68.03 million for the FPE 30 June 2020.

The Group's implementation of cost containment strategies in the 2nd quarter of 2020 such as right sizing of manpower, salary cuts for management, staff and directors, negotiation of deferrals with lessors, suppliers and partners and restructuring of fuel hedging positions, remain intact resulting in fixed cost reduced by 50% in the 3rd quarter of 2020.

The Group is focused on ensuring its liquidity and capital adequacy, and are currently in discussion with banks, lenders and investors on various forms of capital raising. A portion of the loans would fall under the Government's Danajamin PRIHATIN Guarantee Scheme. The Group's subsidiaries in the Philippines and Indonesia are also seeking loans to tide over this challenging period.

(Source: Management of AAGB)

6.4 Prospects of AAGB

In response to the COVID-19 outbreak, the Group has been redeploying capacity to domestic and intra-ASEAN routes while aggressively protecting its market share. AAGB is also collaborating with stakeholders and the authorities on incentives, discounts and rebates. In addition, the Group has established Crisis Management Teams to monitor the situation and minimise the impact of the virus on its business.

As travel picks up, the Group will be working closely with airports and health authorities to establish new norms to ensure safe air travel post COVID-19. The Group's aircrafts are already fitted with hospital-standard high efficiency particulate air filters. In line with the World Health Organization and the International Civil Aviation Organization recommendations, the Group is also conducting thorough disinfections after every flight and will continue to practice social distancing measures implemented on ground and inflight.

In addition, the digital initiatives of the Group under AirAsia Digital Sdn Bhd ("**AirAsia Digital**") has been on a growth trajectory with the transformation of its subsidiaries into an all-in-one digital travel and lifestyle ecosystem anchored by airasia.com, a single platform offering all products under the Group as well as 3rd parties. The product offerings under AirAsia Digital includes, but are not limited to the following:

- (i) airasia.com, the Group's all-in-one digital lifestyle platform, allowing customers to purchase a range of travel and lifestyle products on a single platform, covering travel (flights, hotels, SNAP, activities, ancillary products, health, etc), e-commerce (AirAsia Shop, AirAsia Food, AirAsia Fresh) and finance (BigPay, BigRewards, BigExchange, Insurance, etc);
- (ii) Teleport, the Group's cross-border logistics solution which includes first mile and last mile deliveries serving business to business, business to consumers and consumers to consumers, customers, as well as the food businesses under the Group's e-commerce division;
- (iii) BigPay, which currently offers payment solutions and remittances, as well as lending solutions in the near future;
- (iv) BigRewards, the rewards and points company which allows its members in ASEAN region to earn and burn points from various merchants; and
- (v) Santan, which provides end-to-end agro-food ecosystem leveraging on AirAsia's recognized food brand technology and logistics capabilities, comprising of in-flight & franchise restaurants, central production & cloud kitchen and a farm-to-table platform business.

In conjunction with the Group's emphasis on its digital transformation, combined with strict internal cost controls and safety measurements, the management believes that the aforementioned actions taken by the Group positions it to be on a strong footing to recover quickly.

AAGB is navigating its recovery phase well as key operational metrics improved in December in comparison to September, notably with a 31% increase in passengers carried by AirAsia Thailand, doubling of passengers carried by AirAsia Philippines, while AirAsia Indonesia multiplied its number of passengers carried by 11 times. These improvements signify a solid domestic rebound for air travel demand across the Group's key operating markets.

For the full year, 2020 was a year of resilience for all four companies with Air Operator Certificates ("**AOCs**"), as each entity worked hard to overcome the ongoing challenges and together carried 23 million passengers. By December 2020, the four AOCs recovered close to 60% of pre COVID-19 domestic capacity. Post COVID-19, the Group expects to benefit from a leaner and optimised airline operation established in 2020, concentrating on recovering the most profitable and popular routes while exploring opportunities to gain market share.

(Source: Management of AAGB)

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7. EFFECTS OF THE PROPOSED LTIS

7.1 Issued share capital

The Proposed LTIS is not expected to have any immediate effect on the issued share capital of AAGB. The issued share capital of the Company will increase progressively as and when new AAGB Shares are issued arising from the exercise of the ESOS Options or the vesting of AAGB Shares comprised in the SGS Awards under the Proposed LTIS.

For illustrative purposes, assuming that the maximum number of AAGB Shares are made available under the Proposed LTIS and are fully granted and vested and that there is no other increase in the issued share capital of AAGB during the duration of the Proposed LTIS, the proforma effects of the Proposed LTIS on the issued share capital of AAGB is as follows:

	No. of Shares (‘000)	Share capital RM’000
Share capital as at 15 February 2021, being the latest practicable date prior to the date of this announcement (“LPD”)	3,341,974	8,023,268
To be issued pursuant to the Private Placement	668,395	⁽¹⁾ 454,508
	4,010,369	8,477,776
Maximum number of AAGB Shares to be issued pursuant to the Proposed LTIS	⁽²⁾ 401,037	⁽³⁾ 284,736
Enlarged share capital	4,411,406	⁽⁴⁾ 8,762,513

Notes:

- (1) Based on the indicative issue price of RM0.68 per Placement Share, which represents a discount of approximately 9.08% to the 5-day VWAP of AAGB Shares up to and including the last practicable date of the announcement of the Private Placement of RM0.7479 per AAGB Share.
- (2) Calculated based on the maximum number of new AAGB Shares which may be allotted pursuant to the Proposed LTIS of 10% of the Company’s total number of issued shares.
- (3) For illustrative purposes, calculated based on RM0.71, representing a discount of approximately 9.88% to the 5-day VWAP of AAGB Shares up to and including the LPD of RM0.7878.
- (4) Amount does not add up due to rounding differences

7.2 Substantial shareholders’ shareholdings

The Proposed LTIS will not have an immediate effect on the shareholdings of the substantial shareholders of AAGB until such time when new AAGB Shares are issued arising from the exercise of ESOS Options and/or vesting of the SGS Awards pursuant to the Proposed LTIS. Any effect on the percentage shareholdings of the substantial shareholders will depend on the actual number of new AAGB Shares to be issued pursuant to the exercise of ESOS Options and/or vesting of AAGB Shares comprised in the SGS Awards pursuant to the Proposed LTIS at the relevant point in time.

7.3 Net assets (“NA”) per AAGB Share and gearing

Save for the potential impact of the Malaysian Financial Reporting Standards 2 (“**MFRS 2**”) on ‘Share-based Payment’ issued by the Malaysian Accounting Standards Board as set out in Section 6.4 below, if the Proposed LTIS is settled by shares, the Proposed LTIS is not expected to have an immediate effect on the consolidated NA, NA per share and gearing of the Company until such time the ESOS Options are exercised and/or the AAGB Shares comprised in the SGS Awards are vested. The effects will depend on the following:

- (i) in respect of the Proposed ESOS, the number of new AAGB Shares to be issued pursuant to the exercise of the ESOS Options and the Exercise Price; and
- (ii) in respect of the Proposed SGS, the number of AAGB Shares to be issued pursuant to the vesting of AAGB Shares comprised in the SGS Awards.

For illustration purposes, upon exercise of the ESOS Options, the consolidated NA per share is expected to:

- (i) increase if the Exercise Price is higher than the consolidated NA per share; or
- (ii) decrease if the Exercise Price is lower than the consolidated NA per share,

at such point of exercise and/or vesting.

In respect of the Proposed SGS, if it is executed by way of issuance of new AAGB Shares, the consolidated NA per share of the Company is expected to be diluted following the allotment and issuance of new AAGB Shares to satisfy the SGS Awards. If the Proposed SGS is settled by cash, the Proposed SGS may reduce the consolidated NA, NA per share and increase the gearing of the Company accordingly.

7.4 Earnings and earnings per AAGB Share (“EPS”)

The Proposed LTIS is not expected to have any material effect on the consolidated earnings and EPS of the Company until such time when the LTIS Awards are granted. Future earnings of the Company may be affected as, according to MFRS 2, the costs arising from the LTIS Awards are required to be measured at the date on which the LTIS Awards are granted and recognised as an expense over the vesting period of the LTIS Awards.

Any potential effects of the Proposed LTIS on the potential earnings and EPS of the Company cannot be determined at this juncture as it would depend on the number of AAGB Shares comprised in the LTIS Awards, number of ESOS Options granted and exercised, the Exercise Price payable upon the exercise of the ESOS Options under the Proposed ESOS and various factors that affect the fair value of the ESOS Options and/or the SGS Awards.

The potential cost of the LTIS Awards does not represent a cash outflow as it is only an accounting treatment. For avoidance of doubt, there will be cash outflow if the SGS Awards is fully or partially satisfied in cash.

7.5 Convertible securities

As at the LPD, AAGB does not have any convertible securities in issue.

8. APPROVALS REQUIRED

The Proposed LTIS is subject to the following approvals being obtained:

- (i) Bursa Securities for the listing of and quotation for such number of new AAGB Shares, representing up to 10% of the total number of issued shares of AAGB to be issued pursuant to the Proposed LTIS on the Main Market of Bursa Securities;
- (ii) the shareholders of AAGB at the Company's Extraordinary General Meeting ("EGM") to be convened; and
- (iii) any other relevant regulatory authorities/parties, if required.

The Proposed LTIS is not conditional upon any other corporate exercise of the Company.

9. INTERESTS OF THE DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

None of the directors, major shareholders, chief executive and/or persons connected with them have any interest, direct or indirect, in the Proposed LTIS.

In the event the Company intends to allocate any LTIS Awards to its directors and/or persons connected with them during the duration of the Proposed LTIS, the said director will abstain from deliberating and voting at all relevant Board meetings on his/her allocation, as well as allocations to persons connected with them (if any). The said director will also abstain from voting in respect of his/her direct and/or indirect shareholdings in AAGB on the resolutions pertaining to his/her respective allocations as well as allocations to persons connected with them (if any) under the Proposed LTIS at the EGM to be convened. The said director will also undertake that he/she shall ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in AAGB (if any) on the resolutions pertaining to his/her respective allocations as well as allocations to persons connected with them at the EGM to be convened.

In addition, the Company will seek the approval of its shareholders for the relevant entitlements at a general meeting.

10. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed LTIS, including the rationale for and the effects of the Proposed LTIS, is of the opinion that the Proposed LTIS is in the best interest of the Company.

11. ADVISER

RHB Investment Bank has been appointed as the Principal Adviser for the Proposed LTIS.

12. EXPECTED TIME FRAME FOR APPLICATION TO THE RELEVANT AUTHORITIES AND COMPLETION

Barring any unforeseen circumstances, the application to Bursa Securities is expected to be made within 1 month from the date of this announcement.

Barring any unforeseen circumstances and subject to all approvals being obtained, the Proposed LTIS is expected to be implemented by the 2nd quarter of 2021.

This announcement is dated 17 February 2021.