

CAPITAL A BERHAD (FORMERLY KNOWN AS AIRASIA GROUP BERHAD) (“CAPITAL A” OR “THE COMPANY”)

EXECUTION OF JOINT VENTURE AGREEMENTS OF CAPITAL A’S INVESTMENT OF 51% SHAREHOLDING VIA AIRASIA AVIATION GROUP LIMITED (FORMERLY KNOWN AS AIRASIA AVIATION LIMITED) (“AAAGL”), A WHOLLY OWNED SUBSIDIARY OF CAPITAL A, TO ESTABLISH A LOW COST CARRIER IN CAMBODIA

1. INTRODUCTION

The Board of Directors of Capital A is pleased to announce that the Company, through its wholly owned subsidiary, AAAGL, has on 9th December 2022 executed the following:-

1. A Share Subscription Agreement for AAAGL to invest 51% and Sivilai Asia to invest the remaining 49% of the issued and paid-up capital of a Cambodian joint venture company to be incorporated under the name AirAsia (Cambodia) Co., Ltd’ or similar name approved by the relevant Governmental Authorities (“**AirAsia Cambodia**”); and
2. A Shareholders Agreement with Sivilai Asia Co., Ltd (“**Sivilai Asia**”) (Registration No: 1000120163, a company incorporated in Phnom Penh, Cambodia having its head office at House No. 25s2 Room 1, Street 268, Chakto Mukh, Doun Penh, Phnom Penh, Cambodia) to operate, if permitted by the relevant Governmental Authorities, low cost passenger air transportation and ancillary services on domestic routes in Cambodia and on international routes. The agreement records rights and obligations of each party relating to the operation and management as well as their shareholding in AirAsia Cambodia.

Both agreements are formalised for the purpose of forging a joint venture cooperation between AAAGL and Sivilai Asia to establish a low cost airline in the Kingdom of Cambodia based on the successful AirAsia business model.

The Company, through its wholly owned subsidiary, AirAsia Berhad (“**AAB**”), will also execute a Brand Licence Agreement with AirAsia Cambodia where AAB would grant AirAsia Cambodia a non-transferable, non-assignable, exclusive licence to use the AirAsia brand in Cambodia for the period of the Shareholders Agreement in consideration for a fee to be agreed between AAB and AirAsia Cambodia.

(Collectively, the transactions above are referred to as “the JV”).

2. BRIEF INTRODUCTION OF THE JV PARTNERS

AAAGL

AAAGL is a wholly owned subsidiary of Capital A incorporated in Federal Territory of Labuan, Malaysia on 11 September 2003. It's registered office is located at Level 5(A), Main Office Tower, Financial Park Labuan Complex, Jalan Merdeka, 87000, Federal Territory of Labuan, Malaysia. AAAGL is principally engaged in investment holding activities and is the holding company, under Capital A, for its group of airlines and airline investments portfolio companies.

Sivilai Asia

Sivilai Asia is a company incorporated in Phnom Penh, Cambodia on 19 January 2022 having its head office at House No. 25s2 Room 1, Street 268, Chakto Mukh, Doun Penh, Phnom Penh, Cambodia. It is a consultancy management firm that aims to operate hospitality businesses in Cambodia. In line with the strong development of Cambodia, it aims to bring new innovative products to enhance the lifestyle of Cambodians.

3. RATIONALE OF THE JV

Over the two decades before the COVID-19 pandemic, Cambodia was one of the fastest-growing economies in the world. It reached lower middle-income status in 2015 and was expected to attain upper middle-income status by 2030. The Cambodian economy grew at an average annual rate of 7.7% between 1998 and 2019. Between 2009 and 2019, its poverty rates declined by 1.6% each year driven by rising wages. Its GDP per capita almost doubled over the last 10 years and has been growing at a similar pace than its peers in IndoChina (4.9% Cambodia vs. 5.8% Myanmar and 5.1% Laos), highlighting its potential to bridge the gap with other neighbouring ASEAN economies and develop its economy further.

Pre-COVID, Cambodia was the 8th largest aviation market in South East Asia. In terms of capacity, it has been the fastest growing country in the region between 2015 and 2019 (13% CAGR - vs. 11% Vietnam, 10% Laos, 5.5% Philippines), and it was due to overtake Myanmar's 7th position pre-COVID at its previous growth rate. Cambodia's total capacity has almost doubled in a timeframe of only 5 years, displaying an impressive growth trajectory and massive potential.

Cambodia's low cost carrier market penetration is only 28% and has room to grow, as other ASEAN countries such as Malaysia, Thailand and the Philippines have low cost penetration in excess of 50%. Furthermore, there is only one low cost/hybrid local airline based in Cambodia with a small fleet of 4 aircraft.

Given the factors above and a sizable population of 17 million people, there is great potential for growth in Cambodia. This clearly presents an opportunity for a new low cost carrier to enter the market and stimulate the aviation industry in Cambodia to ASEAN and beyond. AirAsia will continue to build on this growth and support Cambodia to become one of the prominent aviation markets in ASEAN.

Air connectivity improvement in Cambodia would be a key enabler to support an uptick in GDP, providing a boost in multiple industries - namely tourism, export-related industries, logistics, airport retailers and airline support businesses. An increase in connectivity will also stimulate demand for air travel amongst the population due to increased airline and destination choices, opening doors to students travelling abroad, supporting work-related travel, boosting trade ties, and catalysing growth of new small and medium enterprises.

4. PROSPECTS OF THE JV

AAAGL is the largest foreign airline operating into Cambodia in terms of capacity. Setting up a JV in Cambodia is the natural next step for the Group, since a local Cambodian AOC will further establish AirAsia's brand in Cambodia and Indochina, giving AirAsia access to the Cambodian domestic market, and allowing the Group to expand internationally to various destinations including our existing markets from Cambodia to build scale, network connectivity and reduce our cost of operations further. Setting up a JV in Cambodia is also in line with the Company's ASEAN expansion strategy.

The key objective of the JV is to bring low cost airline travel to Cambodia, as we look forward to expanding and accelerating our network to connect Cambodia to ASEAN, North Asia and beyond, true to our mission of democratising air travel, providing best values, driving tourism and boosting economic growth of Cambodia. We are excited about the prospect of delivering true low-cost air travel connectivity, experience and convenience to the 7th largest country in ASEAN with 17 million population. Additionally, Cambodian passengers will be able to connect to over 150 other destinations in over 20 countries where AAAGL operates to by connecting unto flights operated by other AAAGL's airlines.

AirAsia Cambodia aspires to be the largest airline in Cambodia. AirAsia Cambodia plans to operate mostly to AAAGL's existing stations within the 4 hour radius from Cambodia to leverage scale and brand presence while minimising setup costs. AirAsia Cambodia will increase Cambodia's network offerings by launching new services

to Asian destinations lacking connectivity from Cambodia today, which will help diversify Cambodia's network connectivity and create more links within the region and beyond.

5. FEASIBILITY STUDY

AAAGL has conducted a feasibility study prior to executing the agreements, and based on the study, AAAGL is confident that the JV will enhance AAAGL's ASEAN regional expansion by providing AAAGL with additional routes and destinations, thus increasing AAAGL's market share in the region and its position as a strong player in the ASEAN region.

6. SALIENT TERMS OF THE SHAREHOLDERS AGREEMENT

- Capital A via AAAGL will invest 51% in the JV and Sivilai Asia to invest the remaining 49%, and an application for an operating permit will be submitted to Cambodia's State Secretariat of Civil Aviation.
- AAB grants the rights for the use of the AirAsia brand to the JV airline in accordance with the provisions of a Brand Licence Agreement to be executed by AAB and AirAsia Cambodia, once incorporated.
- Under the JV, AAAGL shall provide the necessary technical, operational and commercial support on an arm's length basis to AirAsia Cambodia based on AAAGL's business knowledge and best practices to ensure commercial, operational, branding and service level uniformity throughout existing AAAGL's operations.
- The Shareholders Agreement contains terms which are common to agreements between shareholders such as reserved matters, board composition, deadlock events, termination and so forth.

7. CAPITAL INJECTION

- The fully paid-up capital requirement is anticipated to be a minimum of USD25 million and AAAGL will use internal funds for its share of the equity investment.
- The initial capital will be USD5 million and will be injected in 3 tranches.

First tranche of USD2.5 million upon execution of the incorporation of AirAsia Cambodia and execution of the Brand License Agreement as well as the Service Agreements, second tranche of USD1.5 million within three (3) months from the date of the first tranche or any other earlier date mutually agreed by the parties and the third and final tranche of USD1 million shall be one month before the start of operations (first commercial flight) or within 3 (three) months from the Second Tranche Closing Date, whichever is the earlier.

Initial Capital Contribution of USD 5 million and Shareholding

Shareholder	Shareholding %	Initial Capital Contribution	Total Number of Equity Shares (par value of KHR 4,000 (four thousand Cambodian Riels) or equivalent USD1.00/Equity Share)	Method of Contribution
AAAGL	51%	USD2.55 million	2,550,000	Cash
Sivilai Asia	49%	USD2.45 million	2,450,000	Cash

8. FINANCIAL IMPACT

The JV is not expected to have any immediate material effect on the earnings per share, net assets per share, gearing, share capital and substantial shareholders' direct and/or indirect shareholding of the Company and is expected to contribute positively in the long-term.

9. RISK FACTORS

The parties have considered risk factors such as any delay in the launch of AirAsia Cambodia due to the failure/delay on approvals, uncertain market recovery post COVID, fluctuations in the foreign exchange rate and changes in fuel price. However at the time of the execution of the agreements, international borders have been broadly reopened and COVID restrictions have mostly been lifted (except from China's strict entry requirements), providing the travel industry some optimism.

Cambodia was one of the first countries to open up international travel with no quarantine in November 2021, leading the way in ASEAN's air travel recovery journey post-COVID, with the rest of countries in the region following suit after that.

10. ESTIMATED TIME FRAME FOR COMPLETION / COMMENCEMENT OF OPERATIONS

Subject to obtaining the relevant regulatory approvals, the JV is expected to commence operations in the second half of 2023. The shareholders of AirAsia Cambodia shall undertake various steps to ensure that all operational, engineering, commercial and administrative aspects of the JV are in place and ready for the launch.

11. APPROVALS

The JV is not subject to the approval of the Company's shareholders. However, the establishment of the airline pursuant to this JV requires the approval of relevant government authorities. The application to the relevant authorities will be submitted shortly after the execution of the JV agreements.

12. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED

None of the directors and/or major shareholders of the Company and persons connected to them, insofar as the existing directors and major shareholders are able to ascertain and are aware, has any interest, direct or indirect in the above-mentioned JV.

13. DIRECTORS' STATEMENT

The Board of Directors of Capital A is of the opinion that the JV is in the best interest of Capital A and its group of companies.

14. DOCUMENTS AVAILABLE FOR INSPECTION

The Shareholders Agreement and Share Subscription Agreement are available for inspection at the registered office of the Company at RedQ, Jalan Pekeliling 5, Lapangan Terbang Antarabangsa Kuala Lumpur (klia2), 64000 KLIA, Selangor Darul Ehsan, Malaysia during normal business hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 9 December 2022.