

1. INTRODUCTION

The Board of Directors of AirAsia Berhad (“the Company”) wishes to announce that the Company had on 14 May 2017 entered into a Memorandum of Understanding (“MOU”) with the China Everbright Group (“Everbright”) and Henan Government Working Group (“Henan Government”).

2. BACKGROUND OF PARTIES TO THE MOU

Everbright is a backbone enterprise under the direct supervision of the state-owned Assets Supervision and Administration Commission of the State Council of the People’s Republic of China. Everbright is a conglomerate focusing primarily on financial services with business portfolio covering banking, securities, insurance, trusts, investment banking, funds, futures, financial leasing, environmental protection and emerging industries. As of end of 2015, Everbright’s total assets reached RMB3,457bn and it achieved a total revenue of RMB124bn and RMB53bn net profit. Everbright currently employs 50,000 employees.

Henan Government represents the state government of China. Henan is a province located in the central part of China with a population of 94.8m as of 2015 and GDP of RMB3.7 trillion, which makes it the fifth largest in China. Its capital city is Zhengzhou which ranks no 18 in terms of GDP contribution (RMB799 million) in 2016. The city is home to Foxconn which is the manufacturer for Apple’s iPhones and also the Zhengzhou Airport Economy Zone (ZAEZ). The ZAEZ was approved by the Chinese central government in 2013 to be the pilot for development of aviation economy in the country.

3. SALIENT TERMS OF THE MOU

The MOU creates no legally binding contractual relationship between the parties and is intended for the parties to confirm their interest in establishing a joint venture for a low cost airline to be known as AirAsia (China) in China (“the JV”) either through an acquisition or by obtaining a new airline license. Under the MOU, it is intended that AirAsia (China) will submit an application for an operating permit in China to Civil Aviation Administration of China (CAAC).

In addition to the airline, the JV will also look into developing infrastructure. The JV will invest in the development of the following in Zhengzhou; a low cost carrier terminal, an aviation academy for pilots, engineers and crew training as well as a maintenance, repair and overhaul provider (MRO).

The parties have also expressed interest to incorporate AirAsia (China) in Zhengzhou which is intended to be AirAsia (China)’s operating base and headquarters. Henan provincial government has been engaged and is fully supportive of the establishment and operations of AirAsia (China) from Zhengzhou.

The MOU has duration of 12 months for the parties to discuss and negotiate definitive agreements for the JV.

4. RATIONALE OF THE MOU

The rationale is to set up a JV in China which is one of the fastest growing air travel markets in

the world to operate a Low Cost Carrier (“LCC”) which offers an affordable but high-quality airline service to Chinese passengers and foreign tourists by leveraging the best-in-class LCC business model.

This will give the Chinese population a greater choice of destinations, better connectivity to underserved routes, affordable fares and will provide a boost in multiple industries namely tourism, export related industries, logistics, airport retailers and airline support industries, which is expected to spur overall economic growth in China.

With rapid liberalisation and the gradual easing of travel restrictions, China's aviation market is experiencing remarkable growth and presents AirAsia Group with a huge opportunity to enter the market and expand our reach across Asia. China currently ranks 2nd after U.S in terms of air travel passenger market and is set to overtake the US to become the world's largest aviation market by 2024 as more people take to the skies domestically and internationally. In the past 5 years, China passenger traffic has been growing at a remarkable rate of more than 10% annually which is higher than the world forecast average growth rate of 4% to 5% annually.

As the first potential foreign LCC to enter China, we believe a first-mover advantage exists to redefine the basis of LCC competition in China and drive LCC adoption which will lead to LCC boom in China. Low cost travel is at an early stage of its development in China which signifies that there is an ample room for growth for the JV in China. LCC penetration rate in China which currently stands at approximately 9% to 10% is far lower than LCC penetration rates in Association of Southeast Asian Nation (Asean) which is at 56%, Western Europe which stands at 40% and 32% in the US.

The establishment of a low cost carrier terminal, an aviation academy and a MRO is to create a robust aviation ecosystem which will support the growth of aviation in China.

The selection of Zhengzhou to incorporate the JV company and to set up an operating base and headquarters is due to the vast potential of Zhengzhou which is located in Central China, has favorable infrastructure, strong local government support and has plans to develop an aerotropolis - an industrial, commercial and logistics zone five times the size of Manhattan with the airport at its heart.

5. RISK FACTORS

The execution of the MOU is not expected to expose the Company to any new business risk as the MOU does not create any binding contractual obligations and in the event the Company enters into definitive agreements for the implementation of the JV, the Company will exercise due care in considering the risks and benefits associated with the JV and will take appropriate measures in planning the successful implementation of the JV.

6. FINANCIAL EFFECTS OF THE MOU

The MOU is not expected to have any material effect on the earnings per share, net assets per share, gearing, share capital and substantial shareholders' shareholding of the Company.

In the event the MOU results in definitive agreements between the parties of the JV, the implementation thereof is expected to have a positive impact to the future earnings of the Company and AirAsia Group.

7. APPROVALS REQUIRED

The MOU does not require the approval of the Company shareholders or relevant government authorities.

8. DIRECTORS AND MAJOR SHAREHOLDERS INTEREST

None of the directors nor major shareholders and persons connected with them has any interest, direct or indirect, in the MOU.

This announcement is dated 15th May, 2017.