



Date: 24 September 2024

The Board of Directors
AIRASIA X BERHAD
RedQ
Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan

Dear Sirs,

PROPOSED ACQUISITION BY AIRASIA X BERHAD OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED (“AAAGL”) HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION (“PROPOSED AAAGL ACQUISITION”)

On behalf of the Board of Directors of AAAGL (“**AAAGL Board**”), I wish to report that after due enquiries by AAAGL Board in relation to AAAGL for the period between 31 December 2023, being the date to which the last audited consolidated financial statements of AAAGL have been made up, and up to the date of this letter, being a date not earlier than 14 days before the date of the circular to the shareholders of AirAsia X Berhad in relation to, amongst others, the Proposed AAAGL Acquisition, that:-

- (i) in the opinion of AAAGL Board, the business of AAAGL and its subsidiaries has been satisfactorily maintained;
- (ii) in the opinion of AAAGL Board, there has been no circumstance arisen since the date of the last audited consolidated financial statements of AAAGL which has adversely affected the trading or the value of the assets of AAAGL and its subsidiaries;
- (iii) the current assets of AAAGL and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) saved as disclosed in Appendix IV of this Circular, there are no contingent liabilities which have arisen by reason of any guarantees or indemnities given by AAAGL and its subsidiaries;
- (v) there has been no default or any known event that could give rise to a default situation, on payments of either interest and/or principal sums for any borrowings by AAAGL and its subsidiaries since the date of the last audited consolidated financial statements of AAAGL; and
- (vi) saved as disclosed in Appendix IV of this Circular, there has been no material change in the published reserves or any unusual factor affecting the profits of AAAGL and its subsidiaries since the date of the last audited consolidated financial statements of AAAGL.

Yours faithfully,
For and on behalf of the Board of Directors of
AIRASIA AVIATION GROUP LIMITED


TAN SRI JAMALUDIN BIN IBRAHIM
Independent Non-Executive Chairman


THARUMALINGAM A/L KANAGALINGAM
Director and Chief Executive Officer

AirAsia Aviation Group Limited
Company No. LL03901
Registered Address:
Level 5(A), Main Office Tower
Financial Park Labuan Complex, Jalan Merdeka
87000 Federal Territory of Labuan, Malaysia

Principle Place of Business:
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur (Klia2)
64000 KLIA, Selangor, Malaysia



AirAsia Berhad
[Company No: 199301029930 (284669-W)]
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Date: 24 September 2024

The Board of Directors
AIRASIA X BERHAD
RedQ
Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan

Dear Sirs,

PROPOSED ACQUISITION BY AIRASIA X BERHAD OF 100% EQUITY INTEREST IN AIRASIA BERHAD (“AAB”) HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,800.00 MILLION (“PROPOSED AAB ACQUISITION”)

On behalf of the Board of Directors of AAB (“**AAB Board**”), I wish to report that after due enquiries by AAB Board in relation to AAB for the period between 31 December 2023, being the date to which the last audited consolidated financial statements of AAB have been made up, and up to the date of this letter, being a date not earlier than 14 days before the date of the circular to the shareholders of AirAsia X Berhad in relation to, amongst others, the Proposed AAB Acquisition, that:-

- (i) in the opinion of AAB Board, the business of AAB and its subsidiaries has been satisfactorily maintained;
- (ii) in the opinion of AAB Board, there has been no circumstance arisen since the date of the last audited consolidated financial statements of AAB which has adversely affected the trading or the value of the assets of AAB and its subsidiaries;
- (iii) the current assets of AAB and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) saved as disclosed in Appendix V of this Circular, there are no contingent liabilities which have arisen by reason of any guarantees or indemnities given by AAB and its subsidiaries;
- (v) there has been no default or any known event that could give rise to a default situation, on payments of either interest and/or principal sums for any borrowings by AAB and its subsidiaries since the date of the last audited consolidated financial statements of AAB; and
- (vi) saved as disclosed in Appendix V of this Circular, there has been no material change in the published reserves or any unusual factor affecting the profits of AAB and its subsidiaries since the date of the last audited consolidated financial statements of AAB.

Yours faithfully,
For and on behalf of the Board of Directors of
AIRASIA BERHAD

A handwritten signature in black ink, appearing to be "F. Ishraf".

**DATO' CAPTAIN FAREH ISHRAF
MAZPUTRA AHMAD FAIRUZ**
Director

A handwritten signature in black ink, appearing to be "R. Asmat".

RIAD ASMAT
Director

APPENDIX XIII(A) – EXPERT’S REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA



Date : 23 September 2024
Our Reference : CORP/2022.108/AKYY/KPY/JT/LHY
Your Reference :

AIRASIA X BERHAD
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor

BY EMAIL

Attention: The Board of Directors

Dear Sirs,

REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS OF THE FEDERAL TERRITORY OF LABUAN (“LABUAN”) AND MALAYSIA

PROPOSED ACQUISITION BY AIRASIA X BERHAD (“AAX” OR “COMPANY”) OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED (“AAAGL”) HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX AT AN ISSUE PRICE OF RM1.30 EACH (“PROPOSED AAAGL ACQUISITION”)

1. INTRODUCTION

- 1.1 We act as Malaysian legal advisers to AAX in relation to the Proposed AAAGL Acquisition and in particular, we have been instructed to provide a report on the policies on foreign investments, taxation and repatriation of profits of Labuan and Malaysia in connection with the Proposed AAAGL Acquisition (“Report”).
- 1.2 This Report has been prepared by us solely for the purposes of inclusion in AAX’s circular to shareholders to be issued by AAX to seek its shareholders’ approval for, amongst others, the Proposed AAAGL Acquisition (“Circular”).

2. ASSUMPTIONS AND QUALIFICATIONS

- 2.1 This Report relates only to the laws of general application in Malaysia (and in particular Labuan) as at the date of this Report and we have made no investigation of, and do not express any views on, the application of the laws of any other country other than Malaysia.
- 2.2 In reporting on the matters set out in this Report, we also express no opinion as to any subsequent change in the relevant laws of Malaysia and Labuan, which comes into effect after the date hereof. As such, we shall have no obligation to update this Report from time to time to reflect any such change to relevant laws of Malaysia and Labuan.

Consultant
Yap Siew Bee

Senior Partner
Philip Koh Tong Ngee

Partners
Adrian Koh Yeow York
Christina Lau Zhi Yan
Kamraj Nayagam
Lee Yee Peng
Lim Lee
Ling Wenny
Low Kin Sin
Pang Jia Ling
Suriailinda Ahmad
Yap Boon Hau
Yee Chew Yan
Yip Jia Hui

Johore Resident Partner
Tan Khai Ling

Muar Resident Partner
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Prasana Selvam
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Associates

Bor Neng Aun
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Grace Tan Keng Sang
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* Please quote our reference when replying
* Working hours 8:30 a.m. to 5:30 p.m., Mondays to Fridays



- 2.3 This Report does not address, or purport to address in any detail, items and matters dealt with in any report made by any accountants, valuers, quantity surveyors or other advisers or experts (if any) in connection with the Proposed AAAGL Acquisition. This Report only relates to the legal aspects and does not apply by implication to other matters and, in particular, does not include the commercial aspects involving the Proposed AAAGL Acquisition and the adequacy of the steps and verification taken.
- 2.4 The statements made in this Report with regard to taxation are general in nature and are based on certain aspects of the tax laws of Malaysia and Labuan and guidelines issued by the relevant authorities in Malaysia and Labuan in force as at the date of this Report and subject to any changes in relevant tax laws and guidelines, or in the interpretation of the law or guidelines, occurring after such date, which changes could be made on a retrospective basis. The statements made in this Report are also not regarded as advice on the tax position of any person or on any tax implications arising from the Proposed AAAGL Acquisition. Further, the statements made in this Report do not purport to be a comprehensive or exhaustive description of all the tax considerations which may be relevant to the Proposed AAAGL Acquisition and do not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. As such, the shareholders of the Company are advised to consult their own tax advisers on the tax consequences of the Proposed AAAGL Acquisition.
- 2.5 This Report is furnished to the Company by us as Malaysian legal advisers in connection with the Proposed AAAGL Acquisition and is solely for the Company’s benefit. This Report is not to be used, quoted or otherwise referred to for any other purpose, save that a copy of this Report is permitted to be disclosed to Bursa Malaysia Securities Berhad (“**Bursa Securities**”) and to be enclosed in the Circular. This Report also does not constitute a recommendation to any shareholders of the Company as to how any shareholder of the Company should vote in respect of the Proposed AAAGL Acquisition.
- 2.6 In providing this Report, we have assumed the accuracy, validity and completeness of the background facts/circumstances set out in this Report and that there are no facts material to our Report herein which we are unaware. We also express no findings or opinion in this Report about factual matters.

3. REPORT

Policies on foreign investment in Labuan and Malaysia

- 3.1 As at the date of this Report, there is generally no legislative framework restricting or prohibiting foreign investment in Labuan-incorporated companies. Accordingly, there are no restrictions or prohibitions under Labuan laws or the laws of Malaysia against AAX, being an entity incorporated under the Companies Act 1965 and is deemed registered under the Companies Act 2016, to acquire and hold all the issued shares in AAAGL, being a company incorporated in Labuan, and there are also no restrictions or prohibitions insofar as the laws and regulations of Labuan are concerned prohibiting foreign investment by any person in AAAGL.

Policies on taxation

- 3.2 A Labuan company is a company incorporated under the Labuan Companies Act 1990, and although Labuan is a Federal Territory of Malaysia, a Labuan company conducting Labuan business activities enjoys certain preferential tax exemptions and rates under the Labuan Business Activity Tax Act 1990 (“**LBATA**”).

Labuan Business Activity Tax Act 1990

3.3.1 Definitions

For the purpose of the LBATA –

- (a) a “Labuan business activity” means a Labuan trading or a Labuan non-trading activity carried on in, from or through Labuan, excluding any activity which is an offence under any written law;

- (b) a “Labuan trading activity” includes banking, insurance, trading, management, licensing, shipping operations or any other activity which is not a Labuan non-trading activity; and
- (c) a “Labuan non-trading activity” means an activity relating to the holding of investments in securities, stock, shares, loans, deposits, or any other properties situated in Labuan by a Labuan entity on its own behalf.

3.3.2 Labuan business activity

Pursuant to Section 3⁽¹⁾ of the LBATA, subject to the LBATA, a Labuan entity carrying on a Labuan business activity shall be charged to tax in accordance with the LBATA for each year of assessment in respect of that Labuan business activity.

**Note:*

- (1) Pursuant to Sections 79 and 81(a) of the Finance (No. 2) Act 2023, Section 3 of the LBATA is amended by renumbering the existing Section 3 of the LBATA as Section 3(1) of the LBATA and the amendment shall have effect for the financial year beginning on 1 January 2025 and subsequent financial years.

3.3.3 Labuan trading activity

Pursuant to Section 4 of the LBATA, a Labuan entity carrying on a Labuan trading activity shall be taxed at a rate of 3% for a year of assessment upon the chargeable profits which shall be the net profits as reflected in the audited accounts of such Labuan entity for the basis period for that year of assessment.

Section 4(3) of the LBATA further provides that the net profits shall not include any income derived from royalty and other income derived from an intellectual property right if it is receivable as consideration for the commercial exploitation of that right as it will be subject to tax under the Income Tax Act 1967 (“ITA”) instead.

For the purpose of the LBATA, a Labuan entity which carries on both a Labuan trading activity and a Labuan non-trading activity will be deemed as a Labuan entity carrying on a Labuan trading activity.

3.3.4 Labuan non-trading activity

Section 9(1) of the LBATA provides that notwithstanding Section 3⁽¹⁾ of the LBATA, the profits of a Labuan entity carrying on a Labuan business activity which is a Labuan non-trading activity for the basis period for a year of assessment shall not be charged to tax under the LBATA for that year of assessment.

**Note:*

- (1) Pursuant to Sections 79 and 82 of the Finance (No. 2) Act 2023, Section 9(1) of the LBATA is amended by substituting for the words “section 3” to the words “subsection 3(1)” and the amendment shall have effect for the financial year beginning on 1 January 2025 and subsequent financial years.

3.3.5 Non-Labuan business activity

Pursuant to Section 2(3) of the LBATA, the provisions of the ITA shall apply in respect of an activity other than a Labuan business activity carried on by a Labuan entity.

3.3.6 Labuan business activity chargeable to ITA upon election

Section 3A of the LBATA provides that a Labuan entity carrying on a Labuan business activity may make an irrevocable election in the prescribed form that any profit of the Labuan entity for any basis period for a year of assessment and subsequent basis period is to be charged to tax in accordance with the ITA instead of under the LBATA. In the event of an irrevocable election,



the exemptions under the LBATA no longer apply to the Labuan entity making the election, and the provisions of the ITA will apply.

3.3.7 Substance requirements

There have also been various significant changes made to the Labuan tax regime in recent years and one of the major changes is the introduction of substance requirements for Labuan entities, which took effect from 1 January 2019.

In regard to the substance requirements for Labuan entities, Section 2B of the LBATA provides that Labuan entities shall, for the purpose of Labuan business activities –

- (a) in relation to a Labuan trading activity:
 - (1) have an adequate number of full-time employees in Labuan; and
 - (2) have an adequate amount of annual operating expenditure in Labuan;and
- (b) in relation to a Labuan non-trading activity:
 - (1) have an adequate number of full-time employees in Labuan;
 - (2) have an adequate amount of annual operating expenditure in Labuan; and
 - (3) comply with any condition in relation to control and management in Labuan.

In addition to this, the Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2021 further provides, amongst others, the list of activities which are deemed as a Labuan trading activity or a Labuan non-trading activity.

A Labuan entity carrying on any Labuan business activity which fails to comply with the regulations as stated above shall be subject to tax at the rate of 24% on its chargeable profits for a relevant year of assessment.

3.3.8 Withholding tax

Pursuant to paragraph 3 of the Income Tax (Exemption) (No. 22) Order 2007 issued in exercise of the powers conferred under Section 127(3)(b) of ITA, withholding tax in respect of, amongst others, the following items are exempted:

- (a) dividends received by an offshore company;
- (b) dividends received from an offshore company which are paid, credited or distributed out of income derived from an offshore business activity or, income exempt from tax;
- (c) royalties received from an offshore company by a non-resident person or another offshore company;
- (d) interest received from an offshore company by a non-resident person (other than interest accruing to a business carried on by a non-resident person in Malaysia where that non-resident person is licensed to carry on business under the Financial Services Act 2013 (“FSA”) and the Islamic Financial Services Act 2013 (“IFSA”));
- (e) interest received from an offshore company by a resident person (other than a person licensed to carry on business under the FSA and the IFSA); and
- (f) amounts received from an offshore company by a non-resident person or another offshore company, in consideration of services, advice or assistance specified in



Sections 4A(i) and (ii) of the ITA.

Hence, any dividends, royalties, interest, and consideration for specific services paid by a Labuan company to a non-resident person or another Labuan company are not subject to withholding tax under the ITA.

3.3.9 Indirect taxes

As Labuan is considered a designated area, Labuan entities are typically exempted from sale tax and services tax in Malaysia unless otherwise provided under certain provisions of the Sales Tax Act 2018 and the Services Tax Act 2018.

With regard to sales tax, the Sales Tax Act 2018 stipulates that sales tax does not apply to certain designated areas and special areas, including Labuan, and sales tax does not apply to taxable goods manufactured in Labuan other than petroleum.

However, where taxable goods are transported from Labuan to the rest of Malaysia (excluding designated areas and special areas as prescribed in Sales Tax Act 2018) or from the rest of Malaysia (excluding designated areas and special areas as prescribed in Sales Tax Act 2018) to Labuan, sales tax shall apply as if such goods were imported into, or exported from, Malaysia from or to a place outside Malaysia.

In relation to service tax, the Service Tax Act 2018 provides that service tax does not apply to Labuan. Furthermore, no service tax is charged on any taxable service provided within Labuan. However, service tax is chargeable where the services are provided by (i) any person whose principal place of business is located in Labuan for any taxable service provided by him within the rest of Malaysia (excluding designated areas and special areas as prescribed in Service Tax Act 2018) and (ii) any registered person whose place of business is located in the rest of Malaysia (excluding designated areas and special areas as prescribed in Service Tax Act 2018) who provides any taxable service to Labuan.

3.3.10 Labuan Business Activity Tax (Amendment) Act 2024

On 20 May 2024, the Labuan Business Activity Tax (Amendment) Act 2024 which provides amendment to Section 22DA of the LBATA was published in the Malaysian government gazette. Following thereto, Section 22DA of the LBATA requires an electronic commerce platform provider to issue a self-billed invoice in accordance with the conditions and specifications as determined by the Director General of Inland Revenue with effect from 1 January 2024.

3.4 Malaysian Income Tax Act 1967

In the event that a Labuan entity carrying on Labuan business activity has elected to be taxed under the ITA under Section 3A of the LBATA, the provisions of the ITA relating to corporate income tax shall apply.

In general, corporate income tax is imposed on income accruing in or derived from Malaysia. Whilst the standard corporate tax rate is 24%, the rate for resident small and medium sized companies (i.e. companies incorporated in Malaysia with paid-up capital of RM2.5 million or less and gross income from business of not more than RM50 million) is 17% on the first RM600,000.00, with the balance being taxed at the prevailing tax rate of 24%.

Policies on repatriation of profits

- 3.5 Pursuant to the Declaration on Entities Created, Incorporated, etc. in Labuan issued by Bank Negara Malaysia (“BNM”) on 28 June 2013, all Labuan entities (save for a Labuan entity which carries on Labuan banking business or Labuan insurance or takaful business) are deemed as non-residents for the purposes of Sections 214 and 215 of the FSA and Sections 225 and 226 of the IFSA as well as the Foreign Exchange Policy Notices issued by BNM on 1 June 2022 (“FEP Notices”).

3.6 In general, the relevant rules under the FEP Notices which are applicable to non-residents are as follows:

3.6.1 Investing in Malaysia

- (a) Non-residents are free to undertake investments in a Ringgit Asset⁽¹⁾ or foreign currency asset in Malaysia, either as direct or portfolio investments without any restrictions.
- (b) Non-residents are also free to repatriate divestment proceeds, profits, dividends or any income arising from investments in Malaysia provided that it is made in foreign currency.

3.6.2 Opening and maintaining of foreign currency and RM accounts

Non-residents are free to open and maintain foreign currency accounts and RM accounts with licensed onshore banks in Malaysia. The funds in these accounts are free to be remitted into and out of such accounts, subject to normal due diligence process by the licensed onshore bank and conversion into foreign currency for repatriation abroad.

3.6.3 Issuance of securities by non-resident

- (a) Non-residents are allowed to issue a security denominated in foreign currency in Malaysia to any person.
- (b) However, in respect of issuance of RM securities in Malaysia, a non-resident requires approval from BNM to issue any amount of RM securities, including initial public offering by non-residents on Bursa Securities.

3.6.4 Repatriation of funds by non-resident

A non-resident is allowed to repatriate from Malaysia, funds including any income earned or proceeds from divestment of Ringgit Asset⁽¹⁾, provided that:

- (a) the repatriation is made in foreign currency; and
- (b) the conversion of RM into foreign currency is undertaken in accordance with the relevant rules under the FEP Notices.

*Note:

- (1) Under the FEP Notices, “**Ringgit Asset**” is defined as –
 - (I) RM-denominated securities or Islamic securities issued in Malaysia by a resident;
 - (II) RM-denominated securities or Islamic securities issued by a non-resident as approved in writing by BNM;
 - (III) RM-denominated financial instrument or Islamic financial instrument as approved in writing by BNM;
 - (IV) RM deposit with a financial institution in Malaysia including deposit-like instrument with only RM delivery at the inception and maturity; or
 - (V) any property in Malaysia.

APPENDIX XIII(A) – EXPERT’S REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA
(cont’d)



The matters set out in this Report are reported on and as at the date of this Report.

Yours faithfully
for and on behalf of
MAH-KAMARIYAH & PHILIP KOH

A handwritten signature in black ink, appearing to read 'Adrian Koh', is written over a long, thin horizontal line that extends across the width of the signature.

Adrian Koh Yeow York
Partner
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CHANDLER MHM

Chandler MHM Limited
17th and 36th Floors, Sathorn Square Office Tower
98 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand
Tel: +66-2-009-5000

Date: 18 September 2024

To: The Board of Directors
AirAsia X Berhad
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan
Malaysia

Re: REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS OF THAILAND

Dear Sirs,

1. **INTRODUCTION**

We, Chandler MHM Limited, act as a Thai legal counsel to AirAsia X Berhad (“AAX”), and were requested to provide a report on policies on foreign investments, taxation and repatriation of profits of Thailand and issue this report solely for your benefit in connection with AAX’s circular to shareholders (“Circular”) in respect of, amongst others, the proposed acquisition by AAX of 100% equity interest in AirAsia Aviation Group Limited (“AAAGL”) from Capital A Berhad resulting in an indirect acquisition of (i) Asia Aviation Public Company Limited (“AAV”), (ii) Thai AirAsia Co., Ltd. (“TAA”) and (iii) Asia Aviation Center Co., Limited (“AACCL”) (collectively, referred to as the “**Thai Target Group**”), all of which are companies incorporated under Thai law (“**Proposed AAAGL Acquisition**”).

2. **POLICIES ON FOREIGN INVESTMENTS**

The Foreign Business Act (“FBA”) is the key legislation which regulates the operation of businesses in Thailand by foreign individuals and legal entities which are defined as “foreigners” under the FBA as follows:

- (a) a natural person who does not have Thai nationality;
- (b) a juristic person not registered in Thailand;

- (c) a juristic person registered in Thailand having half or more of its capital shares held by persons or juristic persons as mentioned in sub-paragraphs (a) or (b) above; or
- (d) a juristic person registered in Thailand having half or more of its capital shares held by persons as mentioned in sub-paragraphs under (a), (b) or (c) above.

Under the FBA, foreigners are prohibited and restricted from conducting certain restricted businesses as listed under the FBA, including amongst others, undertaking most non-manufacturing businesses, retails, wholesales and providing almost all type of services, unless exempted otherwise or granted with a foreign business license and/or a foreign business certificate under the relevant laws, including but not limited to, the Investment Promotion Act or the Industrial Estate Authority of Thailand Act or an exemption under any international treaty.

As TAA holds 99.99% of shares in AACCL and TAA’s shares are 99.99% owned by AAV and AAAGL’s ownership in AAV are limited to approximately 40.71% of AAV’s issued shares, the operations of the current business activities of the Thai Target Group shall not be limited by the FBA after the Proposed AAAGL Acquisition.

3. **POLICIES ON TAXATION**

Corporate income tax (“CIT”)

CIT at the standard rate of 20% is levied on net profits on juristic entities, namely, companies or partnerships incorporated under Thai or foreign laws. A Thai company is subject to tax on income from sources inside Thailand and on foreign-sourced income. Foreign companies are subject to tax only on income derived from sources in Thailand.

In general, Thailand does not impose a separate tax on corporate capital gains. Any gains arising from disposition of assets, regardless of the purpose for which the assets were acquired, shall be treated as ordinary income subject to CIT.

Limited companies organized under Thai law are not required to include any dividends received from another Thai company as revenue, as long as the recipient company has held at least 25% of the total shares with voting rights, without any cross-shareholding by the paying company, for at least three months before and three months after the dividend is paid.

In the case of the sale of shares, if the sale of Thai shares by a foreign shareholder is made to a non-Thai buyer, and the terms of the sale contract are concluded outside Thailand, and the consideration for the shares is paid outside Thailand, the transaction is considered as an “offshore transaction”, and there should be no Thai income tax implication in that case.

Tax losses can be carried forward for five tax years. A change of the shareholders of a company does not affect the tax losses.

There is no group relief or group taxation, thin-capitalization or controlled foreign company rules in Thailand.

Transfer Pricing

Generally, the transfer pricing pertains to the prices charged by related group entities when transferring raw materials, products, intellectual property, and services among themselves. The Thai tax authorities are concerned that, due to their relationship, such transactions might be carried out under terms and prices that do not reflect market transactions at arm’s length.

In 2018, Thailand introduced transfer pricing provisions into the income tax law which came into effect on 1 January 2019, which requires Thai tax entity with a total revenue of not less than THB 200,000,000 in an accounting year to submit a transfer pricing disclosure form together with its income tax return and audited financial statement to the Revenue Department (“RD”) within 150 days (or 158 days for online filing) from the closing date of an accounting period.

According to the transfer pricing measure, an enterprise is required to adhere to the arm’s length principle when conducting a business transaction between the group companies. This means that the price or transaction value must be offered within the framework of normal market conditions – as would be the case for independent companies. In case of doubt, the price or transaction value should be used as a comparable benchmark.

If a transaction between the group companies is not deemed to be conducted at arm’s length, the RD has the power to make an adjustment to the income and/or expenses of the taxpayer concerned.

Personal Income Tax (“PIT”)

Generally, income earned by an individual in Thailand is subject to PIT regardless of whether such income is paid inside or outside of Thailand. Additionally,

income earned by an individual outside Thailand from property or an employer located in Thailand is subject to PIT. Income earned abroad by a person who has resided in Thailand for at least 180 days during the relevant calendar year is subject to Thai PIT only to the extent that such income is brought into Thailand during that calendar year.

The Thai PIT is imposed on net income. Certain deductions and allowances are allowed in the calculation of the taxable income. Taxpayer shall make deductions from assessable income before the allowances are granted.

Taxpayers are subject to a personal allowance of THB 60,000. There are special rules for calculating deductions for other types of income earned by individuals.

Thai personal income tax is imposed on an individual's net income at a progressive rate ranging from 5-35%.

Value added tax (“VAT”)

VAT is chargeable on a wide range of goods and services supplied in Thailand and also on the importation of goods. As a general consumer expenditure tax, the basic principle of VAT is to charge tax at each stage of production, allowing each supplier credit for the tax paid, so that the VAT eventually impacts the final consumer.

Taxable supplies attract VAT at either the standard rate of 7% or at 0%. The zero percentage applies to exports. For export services, the zero rate will apply to the portion of the services that are provided to, and made use of, outside Thailand and 7% VAT will apply to the portion of services that are used in Thailand. Certain supplies are exempt from VAT, for example, unprocessed agricultural products, newspapers, magazines, textbooks, health care services, educational services, auditing services, rent of immovable property and internal transport by land.

As of the date of this report, the rate of 7% is a reduced rate from a standard rate of 10% for a temporary period under a special Royal Decree, which shall be effective until 30 September 2024. However, it is important to note that this temporary reduction has been in place since 1997, with no indication from the government that the rate will revert to the original rate of 10% in a foreseeable future.

Withholding tax (“WHT”)

WHT on domestic payments

The Revenue Code requires a company making domestic payments of assessable income to individuals and corporations to withhold and remit to the RD a portion of such payments. The rate of withholding varies depending on the classification of the income, the identity of the payer and payee, and whether the payment is made in Thailand or is remitted abroad.

WHT on foreign payments

For payments remitted abroad, the withholding requirements vary depending upon the nature of the income and whether a Double Taxation Agreement (“DTA”) might apply to the payment.

Dividend withholding tax

Dividends paid by a Thai limited company to its shareholders are subject to 10% WHT. There is no reduction available under most DTAs to which Thailand is a signatory including the DTA with Malaysia.

Capital gain withholding tax

In the case where a foreign shareholder sells shares of a Thai limited company to a Thai buyer, the Thai buyer is required to deduct 15% of the seller’s gains and remit such tax to the RD. This requirement to withhold tax on a foreign seller’s gain may be relieved by the terms of the applicable DTAs entered into between Thailand and other countries.

Stamp duty

A number of documents and transactions listed in the Stamp Duty Schedule of the Revenue Code are subject to stamp duty. The rates depend upon the class of instruments, but in general are between 0.05% and 1%, although for certain instruments the stamp duty is capped, e.g., for loan documents the stamp duty is capped at THB 10,000.

Specific Business Tax (“SBT”)

Certain business activities in Thailand are exempt from VAT, but are instead subject to SBT. Unlike VAT, SBT is paid by the business engaged in the activity,

not by its customers, although in some commercial transactions the SBT can be passed on to the customer by contract.

SBT rates are subject to the nature of business activities, for banking and real estate companies, SBT is imposed at an effective rate of 3.3%. However, the SBT on transactions similar to commercial banking and the sale of immovable properties may apply to any company or individual in Thailand, whereby SBT could apply on interest income earned from a related party loan or from the sale of real property.

Land and Building Tax

The tax rate for land and buildings differs for natural person and juristic person, the rate is also determined by the price of the property and its actual usage, with a maximum of 0.7% of the property’s value for vacant or unused lands. This rate increases by 0.3% every three years that the lands and/or buildings remain vacant or unused, up to a maximum of 3%.

4. **POLICIES ON REPATRIATION OF PROFITS OR RETURN OF CAPITAL**

As a general rule under the Exchange Control Act (“ECA”), a repatriation of profits or return of capital to recipients located outside of Thailand must undergo a conversion to foreign currency as it is not allowed to remit Thai Baht out of Thailand.

Based on the notification issued under the ECA, a currency conversion for repatriation generally does not require approval from the Bank of Thailand unless the purpose of such repatriation is specifically listed in the negative list announced by the Bank of Thailand. Pursuant to the current negative list announced by the Bank of Thailand, a repatriation of profits or returns of capital does not require an approval from the Bank of Thailand. However, subject to the internal regulations of the various authorized commercial banks undertaking the foreign currency exchange, specific documents in relation to the payments may be requested by the relevant authorized commercial bank in charge of the conversion and remittance process.

Please note that certain repatriations of profits or returns of capital must be made with the deduction of applicable withholding tax in accordance with the Revenue Code.

5. **CURRENT POLITICAL SITUATION IN THAILAND**

Based on news and public information available to us as of the date of this report, we do not reasonably anticipate that the current political situation in Thailand will have any material adverse effects on the financial condition, assets and business of the Thai Target Group.

Yours faithfully,

Handwritten signature in black ink that reads "Chandler MHM Limited". The signature is written in a cursive, slightly slanted style.

CHANDLER MHM LIMITED



Date: 19 September 2024

AIRASIA X BERHAD

RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor, Malaysia

Attention: The Board of Directors

REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS OF THE PHILIPPINES

PROPOSED ACQUISITION BY AIRASIA X BERHAD (“AAX”) OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED (“AAAGL”) HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX AT AN ISSUE PRICE OF RM1.30 EACH (“PROPOSED AAAGL ACQUISITION”)

Dear Sirs,

We act as the Philippines legal advisers to AAX in relation to the Proposed AAAGL Acquisition and in particular, we have been instructed to provide a report on the policies on foreign investments, taxation and repatriation of profits of the Philippines in connection with the Proposed AAAGL Acquisition (“**Report**”).

This Report has been prepared by us solely for the purposes of inclusion in AAX’s circular to shareholders to be issued by AAX to seek its shareholders’ approval for, amongst others, the Proposed AAAGL Acquisition (“**Circular**”).

We are qualified Philippine attorneys at law, qualified to advise on matters governed by the laws of the Philippines, and such qualification has not been revoked or suspended.

I. Policies on foreign investments and repatriation of profits

The Philippines has a liberal foreign investment regime which is protected by the Philippine Constitution and various Philippine laws. The repatriation of profits and capital by foreign investors is protected by Philippines investment laws and Philippines treaty commitments.

A. The Philippine Constitution

Section 20, Article II of the Philippine Constitution states that: *“The State recognizes the indispensable role of the private sector, encourages private enterprise, and provides incentives to needed investments.”* The Philippine Constitution protects foreign investments by limiting the ability of the Philippines to take private property, and by giving strict protection to lawful contracts.

6th Floor, Liberty Center
104 HV dela Costa St.
Salcedo Village, Makati
Philippines 1209

1. Limits of the power to expropriate

The Philippines exercises the inherent power of eminent domain which refers to the authority of the Philippines to take private property for public use without the owner’s consent, conditioned upon the payment of just compensation. This restrains the Philippines’ authority to exercise its power to expropriate by requiring that any such taking be justified for public use and for adequate consideration. Any entity authorized to exercise the power to expropriate property must do so under a court-led process. This is accomplished by filing a complaint under Rule 67 of the Rules of Civil Procedure. As a rule, any such entity initiating the expropriation case shall only have the right to take or enter upon the possession of the property if it deposits with an authorized government depository amounts that approximate the value of the assets. For real property, the amount is the assessed value of the property for purposes of taxation. For personal property, the amount shall be provisionally ascertained by the court of the Philippines.

2. Protection of contracts

The Philippine Constitution protects the sanctity of contracts through the non-impairment clause under Section 10, Article III of Philippine Constitution which states that “*No law impairing the obligation of contracts shall be passed*”. Under the non-impairment clause, the Philippines government is obligated to respect the terms and conditions of contract between private entities and between the Philippines government and private entities. Any attempt to change the terms and conditions of contract without the consent of the parties involved would be considered unconstitutional.

B. The Omnibus Investments Code and the Foreign Investments Act of 1991

Aside from the basic rights granted under the Philippine Constitution, the following rights under the Omnibus Investments Code are available to all investors and registered enterprises, including foreign investors:

1. Repatriation of investments and remittance of earnings

The right to remit profits and repatriate the entire proceeds of the liquidation of the investment in the currency in which the investment was originally made and at the exchange rate prevailing at the time of repatriation may be subject to the powers of the Bangko Sentral ng Pilipinas (Central Bank of the Republic of Philippines) (“BSP”) to restrict the sale of foreign exchange in the imminence of, or during an exchange crisis, or in time of national emergency.

2. Foreign loans and contracts

The right to remit at the exchange rate prevailing at the time of remittance such sums as may be necessary to meet the payments of interest and principal on foreign loans and foreign obligations arising from technological assistance contracts, subject to the powers of the BSP to restrict the sale of foreign exchange in the imminence of, or during an exchange crisis, or in time of national emergency.

3. Freedom from expropriation

There shall be no expropriation by the Philippines government of the property represented by investments or of the property of the enterprise except for public use or in the interest of national welfare or defence and upon payment of just compensation. In such cases, foreign investors or enterprises shall have the right to remit sums received as compensation for the expropriated property in the currency in which the investment was originally made and at the exchange rate at the time of remittance, subject to the powers of the BSP to restrict the sale of foreign exchange in the imminence of, or during an exchange crisis, or in time of national emergency.

4. Requisition of investment

There shall be no requisition of the property represented by the investment or of the property of enterprises except in the event of war or national emergency and only for the duration thereof. Just compensation shall be determined and paid either at the time of requisition or immediately after cessation of the state of war or national emergency. Payments received as compensation for the requisitioned property may be remitted in the currency in which the investment was originally made and at the exchange rate prevailing at the time of remittance, subject to the powers of the BSP to restrict the sale of foreign exchange in the imminence of, or during an exchange crisis, or in time of national emergency.

The Foreign Investments Act 1991 declares the following as the state policy on foreign investments: *"SEC. 2. Declaration of Policy. — Recognizing that increased capital and technology benefits the Philippines and that global and regional economies affect the Philippine economy, it is the policy of the State to attract, promote and welcome productive investments from foreign individuals, partnerships, corporations, and governments, including their political subdivisions, in activities which significantly contribute to sustainable, inclusive, resilient, and innovative economic growth, productivity, global competitiveness, employment creation, technological advancement, and countrywide development to the extent that foreign investment is allowed in such activity by the Constitution and relevant laws, and consistent with the protection of national security. Foreign investments shall be encouraged in enterprises that significantly expand livelihood and employment opportunities for Filipinos; enhance economic value of agricultural products; promote the welfare of Filipino consumers; expand the scope, quality and volume of exports and their access to foreign markets; and/or transfer relevant technologies in agriculture, industry and support services. Foreign investments shall be welcome as a supplement to Filipino capital and technology in those enterprises serving mainly the domestic market."*

C. The ASEAN Comprehensive Investment Agreement ("ACIA")

The ACIA covers investment by Association of Southeast Asian Nations (ASEAN) states into the Philippines and provides the following substantive protections to covered investments:

1. national treatment;
2. most favored nation treatment;

APPENDIX XIII(C) – EXPERT’S REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS UNDER THE RELEVANT LAWS OF THE PHILIPPINES (cont’d)

3. fair and equitable treatment and full protection and security;
4. compensation in cases of strife; and
5. compensation for expropriation.

II. Restrictions on foreign equity

The Philippine Constitution and certain Philippines laws require minimum Filipino equity investments and cap foreign ownership of shares in domestic corporations engaged in specific businesses. Among those covered are entities considered to be operating, managing, or controlling public utilities as defined by the Public Service Act. The airline industry is not considered a public utility under the Public Service Act.

III. Taxation of Domestic Philippine Corporations

The standard Philippine corporate income tax (“**CIT**”) is twenty-five percent (25%) on net taxable income. For domestic corporations with net taxable income not exceeding PHP5 million (approximately USD86,200) and whose total assets (excluding land where the business entity's office, plant, and equipment are situated) do not exceed PHP100 million (approximately USD1.72 million), the CIT is twenty percent (20%) on net taxable income.

Corporations are also subject to the minimum corporate income tax (“**MCIT**”) of two percent (2%) on gross income. The MCIT is applicable beginning on the fourth taxable year immediately following the year in which a corporation commences its business operations and every year thereafter if the MCIT is greater than the calculated regular income tax.

Corporations are also subject to local business taxes imposed in accordance with the tax ordinances of the provinces, cities, and municipalities where their headquarters are located or, in certain instances, where they operate. The tax rates vary from one local government unit to another.

Dividends paid by domestic corporations to non-resident foreign corporation are subject to a final withholding tax of fifteen percent (15%), subject to the condition that the country in which the non-resident foreign corporation is domiciled, shall allow a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to fifteen percent (15%) or the difference between the regular income tax rate and the fifteen percent (15%) tax on dividends. This rate can be further reduced by applying a relevant tax treaty.

Dividends paid to domestic corporations and foreign corporations that are residents of the Philippines are not subject to tax. Dividends paid to Philippine citizens and to alien individuals who are residents of the Philippines are subject to a tax rate of ten percent (10%). In comparison, those paid to non-resident individual shareholders who are not Filipinos are subject to a tax rate of twenty percent (20%) if they are deemed to be engaged in trade or business in the Philippines and twenty-five percent (25%) if such individuals are not deemed to be engaged in trade or business in the Philippines.

The Philippines applies value-added tax (“**VAT**”) at the rate of twelve percent (12%) on the sale of goods, provision of services, and importation of goods. Certain transactions are subject to the zero (0) VAT rate. These include, among others, the following:

- Services rendered to persons engaged in international shipping or international air transport operations, including leases of property for use thereof, provided that these services shall be exclusively for international shipping or air transport operations; and
- Transport of passengers and cargo by domestic air or sea vessels from the Philippines to a foreign country.

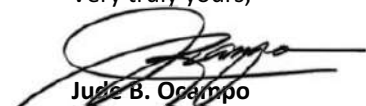
APPENDIX XIII(C) – EXPERT’S REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS UNDER THE RELEVANT LAWS OF THE PHILIPPINES (cont’d)

The Philippine Tax Code also exempts certain transactions from VAT. These include, among others, the following:

- Sale, importation or lease of passenger or cargo vessels and aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations;
- Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations, provided that the fuel, goods, and supplies shall be used for international shipping or air transport operations; and
- Transport of passengers by international carriers.

Laws granting franchises to operators of domestic and air transport services may grant the subject corporations with tax rates that deviate from those imposed by the Philippine Tax Code or grant them certain exemptions and other privileges.

Very truly yours,



Jude B. Ocampo
Partner

APPENDIX XIII(D) – EXPERT’S REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS UNDER THE RELEVANT LAWS OF INDONESIA

DENTONS HPRP

Hanafiah Ponggawa & Partners
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Indonesia
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Ref. No.: 1323/HPRP/IX/24

Jakarta, 20 September 2024

AirAsia X Berhad

RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan, Malaysia

Attn.: Board of Directors

Re.: Report on Policies on Foreign Investments, Taxation, and Repatriation of Profits of The Republic of Indonesia in connection with proposed acquisition by AirAsia X Berhad (“AAX”) of 100% equity interest in AirAsia Aviation Group Limited (“AAAGL”) held by Capital A Berhad (“Capital A”) for a purchase consideration of RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 new ordinary shares in AAX at an issue price of RM1.30 each (“Proposed AAAGL Acquisition”) (“Report”)

Dear Sirs,

We, **Hanafiah Ponggawa & Partners** (“we”, “us”, “our” or “**Dentons HPRP**”), act as the Indonesian legal counsel to AAX and have been instructed to issue the Report in connection with AAX’s circular to shareholders (“**Circular**”) with respect to, amongst others, the proposed acquisition by AAX of 100% equity interest in AAAGL, a wholly-owned subsidiary of Capital A. Capital A, through AAAGL, has indirect equity interests in the Indonesian subsidiaries namely (i) PT AirAsia Indonesia, Tbk. (“**AAI**”), (ii) PT Indonesia AirAsia (“**IAA**”), and (iii) PT Garda Tawang Rekasa Indonesia (“**GTRI**”) (collectively, the “**Indonesian Subsidiaries**”).

This Report expressed herein is limited to matters arising under the laws of the Republic of Indonesia and is based on laws and regulations in force as of the date of this Report. We do not purport to express a report on any questions arising under the laws of any other jurisdiction. We have made no investigation of the laws of any country, state, or jurisdiction other than the laws of the Republic of Indonesia.

For the purposes of providing this Report, we have examined and relied on the list of reviewed documents (“**Documents**”) listed in **Schedule I** of this Report.

A. LIMITATIONS AND ASSUMPTIONS

This Report is based on the following limitations and assumptions:

1. we assume that the laws and regulations we refer to in this Report are still valid as of 30 August 2024 and have not been amended, replaced or supplemented by other subsequent laws and regulations which comes into effect after the date of this Report;
2. we assume that there are no central or regional prevailing laws and regulations whose contents conflict with the laws and regulations we refer to in this Report;
3. this Report is given in relation to the prevailing laws in the Republic of Indonesia and is limited to questions arising under the law of the Republic of Indonesia and the prevailing laws and regulations as of 30 August 2024. We do not purport to express an analysis on any questions arising under

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AirAsia X Berhad

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the laws of any other jurisdiction. We have made no investigation of the laws of any country, state or jurisdiction other than the laws of the Republic of Indonesia;

4. any statement or confirmation provided in this Report may not be used, will not be valid and/or relevant if any judge or court institution in the Republic of Indonesia and/or any other institution outside the Republic of Indonesia, based on their own considerations issue any decision or decree from time to time which does not agree with or contradicts with such statement or confirmation provided in this Report. Such statement or confirmation shall be invalid or irrelevant to the extent provided under the decision or decree. The remaining statements or confirmations provided in this Report shall remain valid and relevant;
5. all information, statements, and facts provided to us are accurate, true, and the most up to date and we have not made any examination or verification of the accuracy of such documents, statements or facts unless stated in this Report; and
6. that all facts stated in the Documents as listed in **Schedule I** of this Report submitted to us are correct, and that no relevant matter was withheld from us, whether deliberately or inadvertently; note that we have made no independent investigation of the facts expressed therein.

B. REPORT

1. Policies on Foreign Investments

In Indonesia, the regulations on investment policies are generally stipulated under Law No. 25 of 2007 on Capital Investment, as amended by Law No. 6 of 2023 on Enactment of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law (“**Investment Law**”). According to Article 5 paragraph (2) of the Investment Law, foreign entities conducting a direct foreign investment shall establish a “foreign investment company” (*Perseroan Terbatas Penanaman Modal Asing*) (“**PMA Company(ies)**”) in Indonesia.

As a general rule, before an investor decides the investment structure, the investor should evaluate the possible foreign ownership restrictions in Indonesia by checking the “Positive List for Investment in Indonesia” as provided in Presidential Regulation No. 10 of 2021 on Investment Business Sectors, as amended by Presidential Regulation No. 49 of 2021 (“**Positive List**”).

Generally, all business fields in Indonesia shall be 100% open for investment, except for the business fields that are declared strictly closed to investment or open only for the Central Government of Indonesia (“**Indonesian Government**”). The Positive List defines the possible restrictions applicable for the intended businesses sectors within the Indonesian economy which are open or closed to foreign direct investment. It also determines whether investment in those business sectors which are open for foreign shareholding ownership will require a local Indonesian partner or subject to any other applicable conditions.

a. Line of Business

- i. Any activities to be carried out by a company in Indonesia must be identified according to 5-digit code of the Indonesia Standard Industrial Classification of 2020 (*Klasifikasi Baku Lapangan Usaha Indonesia of 2020*) (“**KBLI**”) that is currently provided in BPS-Statistics Indonesia Regulation No. 2 of 2020 on Indonesia Standard Industrial Classification. KBLI helps to classify business activities and identify whether any of the proposed activities are classified under the Positive List.

APPENDIX XIII(D) – EXPERT’S REPORT ON POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS UNDER THE RELEVANT LAWS OF INDONESIA (cont’d)

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- ii. The table below sets out the KBLI code of each of the Indonesian Subsidiaries and its respective foreign share ownership limitation:

No.	Name of company	KBLI code	Foreign share ownership limitation
1.	PT AirAsia Indonesia, Tbk.	1. 46900 (Wholesale trade of various goods)	No limitation - open to 100% foreign ownership
		2. 70209 (Other management consultation activities)	
		3. 74902 (Business consulting and business brokerage activities)	
2.	PT Indonesia AirAsia	1. 51101 (Scheduled domestic air transport for passengers or passengers and cargo)	Foreign capital ownership is limited to a maximum of 49%, and the ownership of domestic capital must remain greater than the total ownership of foreign capital (single majority).
		2. 51103 (Scheduled international air transport for passengers or passengers and cargo)	
		3. 51201 (Scheduled domestic air transport for cargo)	
		4. 51203 (Scheduled international air transport for cargo)	
		5. 61200 (Wireless telecommunication activities)	No limitation - open to 100% foreign ownership
		6. 71201 (Certification service)	
3.	PT Garda Tawang Reksa Indonesia	52231 (Airport activities)	

b. Capital and Investment Requirements

The capital and investment requirements for PMA Companies are further governed under Regulation of the Investment Coordinating Board of the Republic of Indonesia No. 4 of 2021 on Guidelines and Procedures for Risk-Based Business Licensing Services and Investment Facilities.

i. Capitalization

A PMA Company must have issued / paid-up capital of at least Indonesian Rupiah (“IDR”) 10,000,000,000 or the equivalent in United States Dollar (“USD”), unless determined otherwise by the relevant sectoral regulations (such as banking and financial sector). With the business capital value above, the PMA Company will be considered large-scale enterprise.

ii. Investment

The investment value for a PMA Company shall be more than IDR10,000,000,000, excluding land and buildings, which applies for each line of business (5-digit KBLI number) per project location. However, the investment values for the following business activities are stipulated as follows:

Activities	Investment value
Wholesale trade	More than IDR10,000,000,000, excluding land and building and applies to first 4 digits of the relevant KBLI.
Food and beverages services	More than IDR10,000,000,000, excluding land and building and applies to first 2 digits of the relevant KBLI per one location.
Construction services	More than IDR10,000,000,000, excluding land and building and for one activity and applies to first 4 digits of the relevant KBLI.
Industrial business activities that produce products with 5-digit KBLI(s) as part of one single production line	More than IDR10,000,000,000, excluding land and building.
Property construction and development	(1) For property that takes the form of complete buildings or integrated housing complexes, the relevant investment value must be more than IDR10,000,000,000, including land and building; or (2) For property units not in one building as a whole or not in integrated housing complexes, the relevant investment value must be greater than IDR10,000,000,000, excluding land and building.

Certain foreign investment companies in capital intensive industries and highly regulated businesses, such as mining and financial sectors, may be subject to higher minimum investment requirements according to the relevant laws and regulations in Indonesia.

Specifically for technology-based startups, which are not only limited to the aspects of funding, infrastructure, mentor networks, technology transfer, and market access, a PMA Company in Special Economic Zone in the technology-based business sector can invest with an investment value equal to or less than IDR10,000,000,000, excluding land and building values.

2. Policies on Taxation

The current framework of Indonesia’s tax laws initiated in 1983 has been subsequently amended, most recently in 2023. Companies doing business in Indonesia are subject to income tax, withholding tax, value added tax (“VAT”) and various other indirect levies, such as tax on land and building, and stamp duty (“Tax Laws”). Individual articles contained in the Tax Laws may be supported by the implementing regulations and decrees, such as: Government Regulations, Minister of Finance Regulations, and Decrees of the Director General of Taxation.

a. Taxpayers

The Tax Laws define a tax subject to include:

- i. an individual;
- ii. an undivided estate as a unit;
- iii. a corporation, including a limited liability corporation, a limited partnership, other forms of limited liability entity, a state-owned or regional enterprise in whatever name and form, a partnership, an association, a firm, a joint operation, a cooperative, a foundation or similar organization, an institution, a pension fund and other forms of business entity;
- iv. a permanent establishment, is defined as any establishment that is regularly used to carry on business in Indonesia by an organization not set up or domiciled in Indonesia.

In determining the residency and tax status of an individual or corporation, consideration will also be given to the provision of any applicable agreement for the avoidance of double taxation (“Tax Treaty”) which Indonesia has concluded with other countries. In this section, both non-resident individuals and non-resident corporations will be referred to as “non-resident taxpayers”.

b. Taxable Income

Taxable income is calculated after allowable deductions. Certain resident individuals are provided income tax exclusions which are set at relatively low-income levels while non-residents are taxed only on the Indonesian source income.

The tax rates applicable to resident individuals (known as PPh 21) are set out in the table below (Article 17 of Law No. 7 of 1983 on Income Tax as amended by Law No. 6 of 2023 on the Enactment of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law – “Income Tax Law”):

Taxable Income Tax Bracket	Tax Rate
Up to IDR60,000,000	5%
From IDR60,000,001 to IDR250,000,000	15%
From IDR250,000,001 to IDR500,000,000	25%
From IDR500,000,000 to IDR5,000,000,000	30%
Above IDR5,000,000,000	35%

AirAsia X Berhad

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When an individual receives a salary, honorarium, allowances, and other payments in connection with work, services, and activities, he/she may be subject to PPh 21. However, not all income is deducted from PPh 21. If an employee does not have a tax identification number, he/she will be subject to a surcharge of 20% on the applicable tax rate.

Subject to the provisions of any applicable tax treaty, non-resident taxpayers, namely individuals or corporations not domiciled or established in Indonesia, which derive income sourced in Indonesia from, among other things, interest, royalties or dividends from Indonesia, are subject to a final withholding tax on that income at the rate of 20%.

All residents must file a tax return unless their income is within the non-taxable income threshold. If a return is due for an individual, it must be submitted within three months following the end of the tax year.

c. Payment of Corporate Income Tax

According to Income Tax Law, the corporate income tax is imposed at a flat rate of 22% (for fiscal year 2022 onwards). This rate applies to Indonesian companies and foreign companies operating in Indonesia through a permanent establishment.

Indonesian public companies that satisfy the requirement of having a minimum of 40% of their shares held by public investors and other conditions are entitled to a tax cut of 3% off the standard rate, giving them an effective tax rate of 19%.

Small and medium-scale companies (that is, companies having gross turnover of up to IDR50 billion) are entitled to a 50% reduction of the tax rate. The reduced rate applies to taxable income corresponding to gross turnover of up to IDR4.8 billion. Certain enterprises with gross turnover of not more than IDR4.8 billion are subject to final tax at 0.5% of turnover.

d. Taxation of Dividends

According to Income Tax Law, for the distribution of dividends to resident corporate taxpayers, there is no withholding income tax. However, the distribution of dividends (regular or interim) must comply with the required formalities as provided in the Law No. 40 of 2007 on Limited Liability Company as lastly amended by Law No. 6 of 2023 on Enactment of the Regulation of the Government in Lieu of Law No. 2 of 2022 on Job Creation into Law (“**Company Law**”) and articles of association of the company. For instance, a regular dividend distribution must be ratified by a general meeting of shareholders. Dividends received by Indonesian resident individual taxpayers that are not to be invested in Indonesia are subject to a final income tax with a maximum rate of 10%. If the dividends received is going to be invested in Indonesia, it is not subject to income tax.

Meanwhile, dividends remitted overseas are subject to a final 20% withholding tax, unless an applicable tax treaty provides a lower rate.

e. Capital Gains on Disposal of Shares

Indonesia does not impose a special tax on capital gains. Under the prevailing regulations, capital gains from the disposal of shares in an Indonesian non-listed company are classified as income and subject to the normal income tax rules if received by resident taxpayers. For the sale of shares by non-resident taxpayers, a 5% effective tax rate of final withholding tax is due on the gross sale transaction value, which may be lower for relevant treaty countries.

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Income earned by individuals or companies from the sale of shares on the stock exchange is subject to a final income tax at a rate of 0.1% of the total gross transaction value whereas founder shares are subject to an additional final tax of 0.5% on listing. Notwithstanding the foregoing, founder shareholders can benefit to only pay 0.1% final tax rate if they have paid 0.5% of the market price within 30 days of their shares listing becoming effective. Otherwise, gains on the sale of shares by founder shareholders are taxed under normal rules.

f. Anti-Avoidance Rule on the Tax Treaty

Indonesia has concluded tax treaties with a number of countries. The relevant tax treaty may also affect the definition of non-resident taxpayers. Where a tax treaty exists and the eligibility requirements of that treaty are satisfied, a reduced rate of withholding tax may be applicable in the case of interest, royalty and dividends. This is also subject to there being no misuse of the tax treaties and the non-resident taxpayers meeting the administrative requirements under the Indonesian tax regulations.

Some tax treaties also provide an exemption from Indonesian tax on any capital gains of non-resident taxpayers arising from alienation of certain properties in Indonesia. To obtain the benefit of an applicable tax treaty, the non-resident taxpayer must be the beneficial owner of the income received from Indonesia and comply with the eligibility requirements of the tax treaty and the specific requirements in Indonesia.

g. Value Added Tax (VAT)

According to Law No. 8 of 1983 on Value Added Tax on Goods and Services and Sales Tax on Luxury Goods as amended by Law No. 6 of 2023 on the Enactment of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law, VAT is imposed on delivery of most goods and services at a rate of 11% and will be increased to 12% starting from 1 January 2025 at the latest.

Under the current VAT legislations, Indonesian Government provides VAT relief in the form of VAT exemption on importation or acquisition of certain strategic goods or services.

Entrepreneurs delivering taxable goods or services exceeding IDR4.8 billion in a calendar year are required to register for VAT and issue VAT invoices on delivery of taxable goods and services.

h. Stamp Duty

Stamp duty (*Bea Meterai*) is a tax imposed on certain types of documents. Law No. 10 of 2020 on Stamp Duty sets a uniform stamp duty rate in the amount of IDR10,000 for each document that is considered subject to stamp duty. However, the nominal value may be subject to reduction or increase depending on the national economic conditions and the level of public income, or applied with different fixed rates in the context of implementing government programs and supporting the implementation of monetary and/or financial sector policies.

The subject of the stamp duty and the party which must pay the stamp duty is the same unless there is an agreement between the parties which states otherwise.

i. Property Tax

Land and building tax is imposed on individuals, companies or organizations that have certain rights to or obtain benefits from land, or possess, control or obtain benefits from

AirAsia X Berhad
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ownership of land and buildings. The tax is based on the government assessed value (ratable value) of the land and buildings as determined by the regional government. The current tax on land and buildings could be up to 0.5% of the ratable value deducted with non-taxable ratable value.

A transfer of rights to land and building will give rise to income tax on the deemed gain on the transfer/sale to be charged to the transferor (seller). The tax is set at 2.5% of the gross transfer value (tax base). A transfer of land and building rights will typically also give rise to duty on the acquisition of land and building rights (*Bea Pengalihan Hak atas Tanah dan Bangunan*/BPHTB) at the maximum of 5% of the transfer value for the party receiving or obtaining the rights.

3. Policies on Repatriation of Profits

According to prevailing laws and regulations in Indonesia, there are no exchange control restrictions applicable for PMA Companies from making dividend payments or other distributions related to their issued share capital.

However, it is worth noting that there are restrictions on transferring IDR outside Indonesia and exchange of foreign currency as governed under (1) Bank Indonesia Regulation No. 6 of 2024 on Money Market and Foreign Exchange Market (“**PBI 6/2024**”) along with its implementing regulation, Board of Governors Regulation No. 24/10/PADG/2022 of 2022 on Implementing Regulation for Transactions on the Foreign Exchange Market, and (2) Bank Indonesia Regulation No. 21/15/PBI/2019 on the Supervision of Foreign Exchange Activities between Banks and Customers (“**PBI 21/15/2019**”) respectively.

According to PBI 6/2024, any funds transfer from Indonesia to another jurisdiction requires the conversion of IDR into an acceptable foreign currency by the receiving bank. The party initiating the fund transfer must first purchase foreign currency. Fund transfers with the following thresholds must be based on an underlying transaction:

- a. cash transactions, either today, tomorrow or spot in the amount of or more than USD100,000 per month per party;
- b. forward-purchase transactions, in the amount of or more than USD100,000 per month per party;
- c. forward-sale transactions, in the amount of or more than USD5,000,000 per transaction;
- d. non-forward purchase transactions, in the amount of or more than USD100,000 per month per party; and
- e. non-forward sale transactions, in the amount of or more than USD1,000,000 per transaction,

The valid underlying transactions include current account transactions, financial account transactions, capital account transactions, credit or financing from bank to residents for trade and investment purposes, domestic trade of goods and services and other underlying transactions as may be stipulated by Bank Indonesia.

Meanwhile, with reference to PBI 21/15/2019, any outgoing transfer from Indonesia to another jurisdiction in foreign currencies exceeding USD100,000 (or its equivalent) by any party through an Indonesian bank (except for transfers of a party's own bank deposit to its own foreign account) must be supported by valid underlying and supporting documentation, such as photocopies of import customs notifications, letters of credit and invoices.

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This Report is strictly limited to the matters stated herein and is not to be read as an advice with respect to any other matter. This Report is addressed to, and is for the addressee’s sole benefit in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. Save for Mah-Kamariyah & Philip Koh, Advocates and Solicitors and Inter-Pacific Securities Sdn Bhd as well as any other advisers to AAX in relation to the Proposed AAAGL Acquisition, it is not to be transmitted to anyone else nor is it to be relied upon by anyone else or for any other purpose or quoted or referred to in any public document or filed with anyone without our express written consent except where such disclosure is required to be made by applicable law or is requested by Bursa Malaysia Securities Berhad or any other regulatory agency. This Report will be annexed to the Circular in respect of an extraordinary general meeting to be convened to approve, amongst others, the Proposed AAAGL Acquisition.

Yours faithfully,
Hanafiah Ponggawa & Partners

Hanafiah Ponggawa & Partners

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA



Date : 23 September 2024
Our Reference : CORP/2022.108/AKYY/KPY/JT/LHY
Your Reference :

AIRASIA X BERHAD
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor

BY EMAIL

Attention: The Board of Directors

Dear Sirs,

LEGAL OPINION IN CONNECTION WITH THE PROPOSED ACQUISITION BY AIRASIA X BERHAD (“AAX” OR “COMPANY”) OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED (“AAAGL” OR “TARGET COMPANY”) HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX AT AN ISSUE PRICE OF RM1.30 EACH (“PROPOSED AAAGL ACQUISITION”)

1. INTRODUCTION

1.1 We are a firm of lawyers qualified to advise on the laws of Malaysia and have been instructed by AAX to issue a legal opinion (“**Legal Opinion**”) on the following matters:

- (a) the due incorporation and capacity of the Target Company;
- (b) the ownership of title to the shares in the Target Company; and
- (c) the validity and enforceability of the following agreements:
 - (1) share sale and purchase agreement dated 25 April 2024 entered into between Capital A Berhad (“**Capital A**”) (as seller) and AirAsia Group Berhad (*formerly known as AirAsia Aviation Group Sdn. Bhd.*) (“**NewCo**”) (as purchaser) in respect of the sale and purchase of the entire equity interest in AAAGL (“**AAAGL SSPA**”);
 - (2) supplemental agreement to the AAAGL SSPA dated 26 July 2024 entered into between Capital A (as seller), NewCo (as original purchaser) and AAX (as new purchaser), for the purpose of making certain amendments and variations to the AAAGL SSPA (“**First Supplemental Agreement**”); and
 - (3) second supplemental agreement to the AAAGL SSPA dated 4 September 2024 entered into between Capital A and AAX, for the purpose of making certain amendments and variations to the AAAGL SSPA (as amended and supplemented by the First Supplemental Agreement) (“**Second Supplemental Agreement**”),

Consultant
Yap Siew Bee

Senior Partner
Philip Koh Tong Ngee

Partners
Adrian Koh Yeow York
Christina Lau Zhi Yan
Kamraj Nayagam
Lee Yee Peng
Lim Lee
Ling Wenny
Low Kin Sin
Pang Jia Ling
Suriatinda Ahmad
Yap Boon Hau
Yee Chew Yan
Yip Jia Hui

Johore Resident Partner
Tan Khai Ling

Muar Resident Partner
Ong Kai Rou

Senior Associates
Ashleigh Heng Wei Yee
Chen Ee Wern
Kong Pei Yin
Lam Shi Yen
Maya Gayathri Devaruban
Mendy Tan Man Ny
Michelle Pauline Lim
Prasana Selvam
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Associates
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Carine Huang Kai Ling
Chia Peck Yun
Chin Hui Shan
Evonne See Shin Hui
Fang Kai Loon
Goh Zhi En
Grace Tan Keng Sang
Jessica Teh Inn Kgee
Lim Hui Ying
Lydia Chong Nien Chee
Nicole Lee Shih En
Poo Hao Yi
Rebecca Ong Chi Cheng
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Tan Eng Jun
Tan Wai Kit
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& Muar (Mega Commercial Centre Office)

* Please quote our reference when replying

* Working hours 8:30 a.m. to 5:30 p.m., Mondays to Fridays

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



in connection with the issuance of AAX's circular to shareholders ("**Circular**") to seek its shareholders' approval for, amongst others, the Proposed AAAGL Acquisition.

2. BASIS OF OPINION

- 2.1 This Legal Opinion relates only to the laws of general application in Malaysia (and in particular the Federal Territory of Labuan ("**Labuan**")) as at the date of this Legal Opinion and we have made no investigation of and do not express any views on, the application of the laws of any other country other than Malaysia. In issuing this Legal Opinion, we also express no opinion as to any subsequent change in the relevant laws of Malaysia and Labuan, which comes into effect after the date hereof and assume no obligation to notify or inform you of any subsequent developments to relevant laws of Malaysia and Labuan which comes into effect after this date hereof which might render its contents untrue or inaccurate in whole or in part at such later time.
- 2.2 In providing this Legal Opinion, we have assumed the accuracy, validity and completeness of the background facts/circumstances set out in this Legal Opinion and that there are no facts material to our opinion herein which we are unaware. We also express no opinion in this Legal Opinion about factual matters.
- 2.3 This Legal Opinion does not constitute a recommendation to any shareholders of the Company as to how any shareholder of the Company should vote in respect of the Proposed AAAGL Acquisition.

3. DOCUMENTS EXAMINED

- 3.1 For the purposes of rendering this Legal Opinion, we have conducted and relied on –
- (a) searches at the databases of the Labuan Financial Services Authority ("**LFSA**") and the Malaysian Department of Insolvency to obtain certain confirmations in respect of the Target Company, its directors and/or its corporate shareholder; and
 - (b) searches at the databases of the Malaysian Department of Insolvency and CTOS Data Systems Sdn. Bhd ("**CTOS Database**"), in respect of the directors and corporate shareholder of the Target Company.
- 3.2 As such, we have undertaken the following searches on the Target Company, the directors of AAAGL ("**Directors**") and the corporate shareholder of AAAGL ("**Shareholder**") only for the purpose of this Legal Opinion –
- (a) company search conducted on 12 July 2024 on AAAGL with the LFSA ("**LFSA Company Search**");
 - (b) letter of good standing on the subsistence of AAAGL dated 17 July 2024 ("**Letter of Good Standing**"), letter of information setting out the corporate information of AAAGL dated 17 July 2024 ("**Information Letter**") and letter of information on the creation of charge by AAAGL dated 17 July 2024, all issued by the LFSA;
 - (c) winding-up searches conducted on 21 September 2024 at the Malaysian Department of Insolvency confirming that the Target Company and its Shareholder have not been wound up according to the records of the Malaysian Department of Insolvency as at the date stated therein;
 - (d) insolvency searches conducted on 21 September 2024 at the Malaysian Department of Insolvency confirming that the Directors are not bankrupts according to the records of the Malaysian Department of Insolvency as at the date stated therein; and
 - (e) searches conducted on 20 September 2024 on the Directors and Shareholder at the CTOS Database confirming that the Directors and Shareholder are not presently involved in any legal suits and/or any bankruptcy/winding-up proceedings according to the records of the CTOS Database as at the date stated therein,

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



(collectively, the “**Searches**”).

3.3 In rendering this Legal Opinion, we have examined the following documents –

- (a) certificate of incorporation of offshore company pursuant to section 15(5) of the Offshore Companies Act 1990 (*now known as Labuan Companies Act 1990*) certifying that the Target Company was incorporated on 11 September 2003 under the name of AA International Ltd;
- (b) certificate of incorporation on change of name of a Labuan company pursuant to section 22(2) of the Labuan Companies Act 1990 (“**LCA 1990**”) certifying on the following:
 - (1) the change of name from AA International Ltd to AirAsia Investment Ltd with effect from 18 November 2011;
 - (2) the change of name from AirAsia Investment Ltd to AirAsia Aviation Limited with effect from 7 October 2021; and
 - (3) the change of name from AirAsia Aviation Limited to AirAsia Aviation Group Limited with effect from 7 February 2022;
- (c) memorandum and articles of association of AAAGL (“**M&A**”);
- (d) register of members and beneficial owners of the Target Company;
- (e) register of transfer of the Target Company;
- (f) register of directors of the Target Company;
- (g) register of secretaries of the Target Company;
- (h) resolutions from the meetings of board of directors or directors’ circular resolution of the Target Company concerning allotment and issuance of shares and transfer of shares in the Target Company;
- (i) forms of return of allotment of shares in respect of allotment and issuance of shares in AAAGL pursuant to section 43(1) of the LCA 1990 dated 12 September 2003, 5 January 2004 and 12 October 2004 respectively;
- (j) forms of transfer of shares in respect of transfer of shares in AAAGL pursuant to section 80 of the LCA 1990 dated 23 April 2007, 24 May 2007, 12 July 2007, 8 August 2007 and 30 August 2018 respectively (“**Forms of Transfer of Shares**”);
- (k) form of Annual Return of AAAGL pursuant to section 109 of the LCA 1990 dated 9 August 2024 (“**Annual Return**”);
- (l) a copy of the executed AAAGL SSPA, the executed First Supplemental Agreement and the executed Second Supplemental Agreement (collectively, the “**Agreements**”);
- (m) certified true copy of the extract of the minutes of the special board meeting of the Company held on 24 April 2024 authorising, *inter alia*, (1) the undertaking of the Proposed AAAGL Acquisition by NewCo; (2) the entry of the AAAGL SSPA by NewCo; and (3) the signing and execution of the acknowledgment page contained in the AAAGL SSPA by Dato’ Abdul Mutalib Bin Alias, the Independent Non-Executive Director of the Company on behalf of the Company;
- (n) directors’ circular resolution of NewCo and member’s written resolution of NewCo, both dated 25 April 2024 authorising, *inter alia*, (1) the undertaking of the Proposed AAAGL Acquisition by NewCo; (2) the entry of the AAAGL SSPA by NewCo; and (3) the signing and execution of the AAAGL SSPA by any one of the directors of NewCo on behalf of NewCo;

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



- (o) certified true copy of the extract of the minutes of the board meeting of the Company held on 22 July 2024 authorising, *inter alia*, (1) the undertaking of the Proposed AAAGL Acquisition by AAX in place of NewCo; (2) the entry of the First Supplemental Agreement by the Company; and (3) the signing and execution of the First Supplemental Agreement by Benyamin Bin Ismail, the Chief Executive Officer of the Company or any one of the directors of the Company on behalf of the Company; and
- (p) directors' circular resolution of the Company dated 4 September 2024 authorising, *inter alia*, (1) the entry of the Second Supplemental Agreement by the Company; and (2) the signing and execution of the Second Supplemental Agreement by Benyamin Bin Ismail, the Chief Executive Officer of the Company or any one of the directors of the Company on behalf of the Company,

(collectively, the “**Documents**”).

3.4 Our Legal Opinion is given on the basis of assumptions set out in **Schedule 1** hereto and is subject to the qualifications set out in **Schedule 2** hereto. For the purposes of this Legal Opinion, we have not examined or relied on any other documents other than the Documents listed above. Our examination of the Documents listed above is strictly to the extent that is relevant to our opinion herein.

3.5 We express no opinion as to any agreement, instrument or other document or matter other than as specified in this Legal Opinion.

4. SCOPE OF ENQUIRIES

4.1 Unless otherwise stated in this Legal Opinion, this opinion does not address or purport to address in any detail, items and matters dealt with in any report made by any accountants, valuers, quantity surveyors or other advisers or experts (if any) in connection with the Proposed AAAGL Acquisition.

4.2 This opinion only relates to the legal aspects of AAAGL and does not apply by implication to other matters and, in particular, does not include the commercial aspects involving AAAGL and the adequacy of the steps and verification taken.

4.3 In preparing this Legal Opinion and carrying out work in respect of the due diligence exercise, we have limited our enquiries to matters of a legal nature and to the verification of legal information relating to the Proposed AAAGL Acquisition and accordingly have neither raised queries in respect of or otherwise investigated and accordingly express no opinion on, any accounting, financial or commercial issues relating to or otherwise affecting or capable of affecting, directly or indirectly, AAAGL or the Proposed AAAGL Acquisition. In particular, our role in the due diligence verification does not include, *inter alia*, the following:

- (a) Review or verification of the accounts of AAAGL and other taxation (unless otherwise stated in this opinion) or financial data.
- (b) Review or verification of any information or statements on the commercial aspects of AAAGL, including its business prospects, the estimates, the assumptions and justification of future earnings, etc.
- (c) Verification of the adequacy of the insurances taken up by AAAGL.
- (d) Information on profitability, viability or reputation.
- (e) Technical non-legal information and investment considerations.
- (f) All other information relating to the Proposed AAAGL Acquisition which are within the scope of expertise of other advisors such as, but not limited to, valuers, auditors, tax advisors, accountants, investment bankers and other independent expert advisers.

4.4 Our role in the due diligence review does not include rectifying any irregularities that are uncovered in the course of the due diligence review.

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



5. LEGAL OPINION

Based upon our review of the Documents and Searches as set out in paragraph 3 of this Legal Opinion and subject to the assumptions set out in **Schedule 1** and the qualifications set out in the **Schedule 2** as well as having regard to such considerations of Malaysian law (and in particular, Labuan) in force as at the date of this Legal Opinion as we consider relevant, we are of the opinion that:

5.1 Due incorporation and capacity

5.1.1 The Target Company is a private limited company duly incorporated and validly existing as a legal entity under the laws of Labuan, Malaysia.

5.1.2 The Target Company is capable of suing and being sued in its own name.

5.1.3 The Target Company has the necessary capacity, corporate powers and authority to enter into valid and binding agreements, make representations and commit to undertakings in its own name in Malaysia.

5.1.4 Upon having perused the object clauses of the M&A, we are of view that it contains adequate power for the Target Company to carry on its principal business according to the Annual Return.

5.1.5 Based on the Letter of Good Standing, the Information Letter as well as the winding-up search as stated in paragraph 3.2(c) of this Legal Opinion, as at the dates stated therein respectively –

- (a) AAAGL has not submitted to LFSA articles of merger, consolidation or take over that has not yet become effective;
- (b) AAAGL has not submitted to LFSA arrangement or reconstructions under Part VII of LCA 1990;
- (c) AAAGL is not in the process of being wound up, liquidated, ceased business or transfer of domicile to other jurisdiction;
- (d) there was no legal process with regards to winding-up and dissolution of AAAGL which has been initiated, filed or brought to attention of the LFSA;
- (e) no proceedings have been initiated to strike AAAGL off the register; and
- (f) insofar as is evidenced by the forms or documents filed with the LFSA under LCA 1990, AAAGL is still in existence.

5.2 Ownership of title to shares in the Target Company

5.2.1 Based on the LFSA Company Search, the Information Letter and the register of members and beneficial owners of AAAGL, the total issued share capital of the Target Company is USD5,270,000.00 comprising of 5,270,000 ordinary shares. As at the date of this Legal Opinion, the issued shares of the Target Company have been duly authorised and validly issued. The name and details of the registered Shareholder of AAAGL is as follows:

No.	Registered Shareholder	No. of shares held in AAAGL	Equity interest (%)
1.	Capital A	5,270,000	100
Total		5,270,000	100

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



- 5.2.2 Based on the register of transfer and the Forms of Transfer of Shares, the share transfer involving the Target Company in relation to the equity interest held by the Shareholder of AAAGL as set out in paragraph 5.2.1 above has been authorised, lawfully completed and was validly transferred.
- 5.2.3 There is no restriction to transfer ownership of the shares in the Target Company, nor there are any restrictions on holders of shares of the Target Company to exercise the right to vote on its shares. Further, based on the documents made available to us, save as stated in Schedule 3A of the Agreements, there are no consents or approvals of any third party which are required to give effect to such transfer or for any third party to hold such shares or to exercise rights in respect of such shares.
- 5.2.4 Based on the documents made available to us, AAAGL has not entered into any contract or agreement which require AAAGL to issue options, warrants, instruments convertible to shares or other rights of a similar nature to purchase or subscribe for any interest in the shares of AAAGL.
- 5.3 Enforceability of agreements, representations and undertakings in connection with the Proposed AAAGL Acquisition
- 5.3.1 The agreements, representations and undertakings given by the Target Company and AAX under the Agreements in connection with the Proposed AAAGL Acquisition are generally enforceable under the laws of Malaysia.
- 5.3.2 As the Target Company is the subject matter of the Proposed AAAGL Acquisition, AAAGL is not a signatory to the Agreements.
- 5.3.3 In respect of the Agreements, subject to the conditions precedent as stipulated under the Agreements, AAX has the legal capacity and corporate power and authority to enter into and perform its obligations under the Agreements to which it is a party and has taken all necessary corporate action to authorise the execution, delivery and performance of the Agreements.
- 5.3.4 The Agreements have been duly executed by the authorised signatories of NewCo and AAX respectively.
- 5.3.5 The directors' circular resolution and member's written resolution of NewCo, the extract of the minutes of the board meeting of AAX held on 22 July 2024 as well as the directors' circular resolution of AAX referred to in paragraphs 3.3(n), 3.3(o) and 3.3(p) above authorise (1) any one of the directors of NewCo to sign the AAAGL SSPA; and (2) Benyamin Bin Ismail, the Chief Executive Officer of the Company or any one of the directors of the Company to sign and execute the First Supplemental Agreement and the Second Supplemental Agreement.
- 5.3.6 Insofar as Malaysian law is concerned, the obligations of AAX and the Target Company (where applicable) are legally valid, binding and enforceable against AAX and the Target Company respectively in accordance with the terms of the Agreements.
- 5.3.7 The entry into and delivery and performance of the obligations of AAX and the Target Company (where applicable) under the Agreements do not or will not violate any law or regulation of Malaysia or the provisions of the M&A.
- 5.3.8 The Agreements are governed by Malaysian law. In respect of the Agreements, the parties to the Agreements agree that any dispute, difference or question between the parties which cannot be resolved will be referred to and finally resolved by arbitration in accordance with the relevant provisions under the Agreements.

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



6. Benefit of Opinion

- 6.1 This Legal Opinion is addressed to the Company solely for its benefit in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. This Legal Opinion is not to be transmitted to anyone else nor is it to be relied upon by anyone else or used for any other purpose or quoted or referred to in any public document or filed with anyone without our express consent, save that a copy of this Legal Opinion may be disclosed to Bursa Malaysia Securities Berhad and to be enclosed in the Circular.

Yours faithfully
for and on behalf of
MAH-KAMARIYAH & PHILIP KOH

Adrian Koh Yeow York
Partner
Email : adrian.koh@mkp.com.my
Direct tel. line : +603-7954 1561

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



Schedule 1

Assumptions

For the purposes of this Legal Opinion, we have made the following assumptions:

- (a) That all Documents submitted to us as copies, certified true copies or specimen documents, including without limitation to the documents forwarded to us are complete and conform to their originals.
- (b) That all relevant documents have been executed in the same form as that examined by us.
- (c) That the signatures, seals and any duty stamp or marking on the originals of all documents are genuine and that all signatories thereto have been duly authorised by the respective company.
- (d) That the persons who have attested the affixation of the common seal of a corporation are persons who are authorised to do so by that corporation's articles of association or other constituent document.
- (e) That the Agreements were executed in the form referred to in paragraph 5.3.5 above.
- (f) That each of the Documents (whether original or copies) supplied to us continues unamended and in full force and effect and has not been varied, cancelled, revoked or superseded by some other document, record, resolution, agreement or action of which we are unaware and in particular, the various resolutions of the Target Company, the Company and NewCo referred to above have not and will not be rescinded, revoked, terminated, amended or declared null and void.
- (g) That the entire contractual arrangement in relation to the Agreements is as evidenced in the Agreements.
- (h) That save for those factual matters which are also the subject-matter of any opinion given by us in this Legal Opinion, all factual matters stated in the Agreements and all other documents furnished to us in respect of the Proposed AAAGL Acquisition are true, accurate and complete.
- (i) Except where it is apparent (including from the company searches referred to above conducted with the LFSA) that it was not reasonable for us to so assume, all corporate records and documents inspected by us are complete, up to date and accurate.
- (j) That the resolutions from the meetings of board of directors or directors' circular resolution of the Target Company, the directors' circular resolutions and member's written resolutions of NewCo both dated 25 April 2024, the extracts of the minutes of the special board meeting of the Company held on 24 April 2024 and 22 July 2024 respectively and the directors' circular resolution of the Company dated 4 September 2024 referred to above were validly passed and have not and will not be varied or revoked.
- (k) Each party to the Agreements (other than NewCo and AAX) –
 - (i) has the capacity and (in the case of a body corporate) is validly existing under the laws of its jurisdiction of incorporation and has the corporate power (where applicable) to enter into and perform all its obligations under the Agreements; and
 - (ii) has taken all necessary action to authorise the execution, delivery and performance by it of the terms and conditions of the Agreements in accordance with its terms.
- (l) That none of the parties to the Agreements have been or will be, seeking to conduct any relevant transaction or any associated activity in a manner or for a purpose not evident on the face of the Agreements which is illegal, void or unenforceable or which might render the Agreements or any relevant transaction or associated activity illegal, void or unenforceable.
- (m) That save for representations and warranties which are also the subject-matter of any opinion given by us in this Legal Opinion, unless otherwise stated in another paragraph of this Legal Opinion, the representations and warranties of AAX in the Agreements are true and correct.

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



- (n) That no party has entered or will enter into the Agreements by reason or in consequence (whether wholly or in part) of fraud, mistake, duress, undue influence, misrepresentation or any other similar act, matter or thing which would or might vitiate or prejudicially affect the Agreements or otherwise entitle a party to avoid, rescind or have rectified the Agreements or any of their obligations under the Agreements or give rise to a claim for damages.
- (o) That all documents and instruments of the Target Company submitted to the LFSA for filing / registration are up to date as of the date the search results were issued by the LFSA and there have been no material changes of fact or circumstances in relation to the facts and matters set out in these search results since the relevant dates specified therein.
- (p) That there are no current or pending investigations, actions, suits or proceedings (including but not limited to claims, litigation, arbitration, administrative, tribunal, regulatory, criminal or insolvency proceedings) against or affecting the Target Company and there is no unsatisfied award, judgment or court order outstanding against the Target Company or any distress, execution or other process that has been levied against the undertakings, properties or assets of the Target Company.
- (q) That there are no facts material to our opinion herein which do not appear from all the documents and the public records examined by us or our representatives and of which we are unaware.
- (r) That all relevant documents have been validly authorised, executed and delivered by each of the parties thereto (other than NewCo and AAX) and the performance thereof is within the capacity and powers of each of the parties thereto (other than NewCo and AAX) and are binding and enforceable against the parties thereto (other than NewCo and AAX).
- (s) That each party to the Agreements (other than NewCo and AAX) has or will have prior to performing any of its functions or obligations under the Agreements, complied with all applicable laws, regulations and guidelines, obtained all necessary consents, permissions, approvals, licences, permits, authorisations and declarations and carried out all necessary filings, registrations, similar actions or other actions as required under the laws of Malaysia and all relevant jurisdictions (if applicable) in order to lawfully implement or perform the Agreements.
- (t) That where the Agreements are executed by any party outside Malaysia, the formalities for execution required by the law of the place of execution have been or will be duly complied with, if applicable.

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APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



SCHEDULE 2

Qualifications

The opinions expressed in this Legal Opinion are subject to the following qualifications:

- (a) Enforcement may be limited by bankruptcy, insolvency, liquidation, reorganisation and other laws of general application relating to or affecting the rights of creditors.
- (b) Statements in this Legal Opinion as to the right or liability of a person to do any act, deed or thing in the present or future or both are based on the laws of Malaysia as at the date hereof.
- (c) Our opinion (if any) that an obligation or document is valid, binding and/or enforceable means that the obligation or document is of a type and form which the courts in Malaysia in principle enforce. It should not be taken to mean that the obligations or documents will necessarily be enforced in accordance with their terms in all circumstances. In particular –
 - (i) the enforcement of obligations may be affected or limited by bankruptcy, insolvency, liquidation, reorganisation and other laws of general application relating to or affecting the rights of creditors;
 - (ii) equitable remedies, such as injunctions and specific performance, are discretionary;
 - (iii) the enforceability of obligations may be affected by statutes of limitation, by estoppel and similar principles;
 - (iv) claims may be subject to defences of set-off, counter-claim, estoppel, abatement and similar principles; and
 - (v) the enforcement of obligations may be affected or limited by the occurrence of any event of frustration or principles of public policy.
- (d) In any proceedings taken in Malaysia for the enforcement of the Agreements or any foreign judgment obtained in respect thereof, any sum required to be paid under any judgment or order of any court of Malaysia (whether as a debt, damages or otherwise) to or for the credit of a person resident outside Malaysia shall be paid into court and such payment may be subject to a requirement that it may be paid to or for the credit of such person only with the permission of the Controller of Foreign Exchange of Bank Negara Malaysia.
- (e) Where available, we have relied on the veracity of the respective searches conducted by us or our representatives at the respective electronic databases of the CTOS Database, Malaysian Department of Insolvency and the LFSA.
- (f) We express no opinion about factual matters. In particular, save for representations and warranties which are also the subject-matter of any opinion given by us in this Legal Opinion, we have not verified, are not expressing an opinion on and do not assume any responsibility for the accuracy of any representation or warranty included in the Agreements or the subject of any representation or warranty.
- (g) We express no opinion on any provision in the Agreements requiring written amendments and waivers insofar as it suggests that oral or other modifications, amendments or waivers could not be effectively agreed upon or granted between or by the parties.
- (h) Any clause providing for the severability of any provisions of the Agreements may not be enforceable in accordance with its terms, as a court in Malaysia may reserve to itself a discretion and the decision as to whether any provision is severable.
- (i) A determination, calculation, certificate or statement as to any matter provided for in the Agreements may be held by the courts of Malaysia not to be conclusive and binding in certain circumstances and will not necessarily prevent judicial enquiry into the merits of any claim by an aggrieved party. An example of such circumstances is if such determination, calculation, certificate or statement could be shown to have an unreasonable or arbitrary basis or in the event of manifest error or fraud.

APPENDIX XIV(A) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF LABUAN AND MALAYSIA (cont'd)



- (j) To the extent that a provision of the Agreements may require a corporation (that is a party to the Agreements) to procure another corporation (that is not a party to the Agreements) to do or refrain from doing any act, matter or thing, if it would be a breach of the duties of the directors of the second mentioned corporation (that is not a party to the Agreements) to do or refrain from doing that act, matter or thing or if it would be illegal under the laws of Malaysia, such provision may not be enforceable.
- (k) A court of Malaysia may stay proceedings if concurrent proceedings are being brought elsewhere.
- (l) We express no opinion on any provision in the Agreements requiring written amendments and waivers insofar as it suggests that oral or other modifications, amendments or waivers could not be effectively agreed upon or granted between or by the parties to the Agreements.
- (m) Where under the Agreements any party is vested with a discretion or may determine a matter in its opinion, the laws of Malaysia may require that such discretion be exercised reasonably or that such opinion be based upon reasonable grounds.
- (n) Any additional or default interest imposed by the Agreements on AAX or any other party thereto where it has defaulted in the performance of any of its obligations might be deemed by a court in Malaysia to be a penalty in which event the said court may in place thereof order payment of an amount (not exceeding the additional interest imposed) which it considers to be reasonable.
- (o) Where any obligation under the Agreements is to be performed in any jurisdiction outside Malaysia, it may not be enforceable under Malaysian law to the extent that such performance would be illegal or unenforceable under the laws of such jurisdiction or if they may otherwise be contrary to public policy.
- (p) The rights and obligations of the parties to the Agreements may be affected by the laws applicable to contracts held to have been frustrated by events happening after their execution.
- (q) We express no opinion as to the ability of the parties to the Agreements to observe and comply with their obligations thereunder or on the legal and regulatory requirements of any country (other than Malaysia) for the execution, delivery and enforcement of the Agreements.
- (r) A provision that any statement, opinion, determination or other matter is final and conclusive will not necessarily prevent judicial enquiry into the merits of a claim by an aggrieved party.
- (s) Any provision purporting to require a party to indemnify another person against the costs or expenses of proceedings in Malaysian courts is subject to the discretion of the court to decide whether and to what extent a party to such proceedings should be awarded costs and expenses incurred by it in connection therewith.
- (t) We express no opinion as to any obligation which the Agreements may purport to establish in favour of any person who is not a party to the Agreements.
- (u) The courts may not give effect to any term of the Agreements providing for the total or partial exclusion of a liability or duty otherwise imposed by law.
- (v) A payment made under mistake may be liable to restitution.
- (w) The laws of Malaysia may require that parties act reasonably and in good faith in their dealings with each other.
- (x) Our opinion herein is limited to the matters stated herein and does not apply by implication to any other matters in connection with the Agreements and in particular, it does not include the commercial aspects of the transaction contemplated therein and the adequacy of the terms and conditions of the Agreements vis-à-vis the positions of the parties thereto.
- (y) Where an assumption is stated to be made in this Legal Opinion, we have not, except where expressly otherwise indicated, made any independent investigation with respect to the matters forming the subject of such assumption.

CHANDLER MHM

Chandler MHM Limited
17th and 36th Floors, Sathorn Square Office Tower
98 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand
Tel: +66-2-009-5000

Date: 20 September 2024

To: The Board of Directors
AirAsia X Berhad
RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan
Malaysia

Re: LEGAL OPINION IN CONNECTION WITH THE PROPOSED ACQUISITION BY AIRASIA X BERHAD (“AAX”) OF 100% EQUITY INTEREST IN AIRASIA AVIATION GROUP LIMITED HELD BY CAPITAL A BERHAD FOR A PURCHASE CONSIDERATION OF RM3,000.00 MILLION TO BE SATISFIED ENTIRELY VIA THE ALLOTMENT AND ISSUANCE OF 2,307,692,307 NEW ORDINARY SHARES IN AAX (“CONSIDERATION SHARES”) AT AN ISSUE PRICE OF RM1.30 EACH CONSIDERATION SHARE

Dear Sirs,

1. **INTRODUCTION**

We, Chandler MHM Limited, act as Thai legal counsel to AAX, and hereby issue this opinion letter (“**Opinion Letter**”) solely for your benefit in connection with AAX’s circular to shareholders (“**Circular**”) in respect of, amongst others, the proposed acquisition by AAX of 100% equity interest in AirAsia Aviation Group Limited (“**AAAGL**”) from Capital A Berhad (“**Capital A**”) resulting in an indirect acquisition of (i) Asia Aviation Public Company Limited (“**AAV**”), (ii) Thai AirAsia Co., Ltd. (“**TAA**”) and (iii) Asia Aviation Center Co., Limited (“**AACCL**”) (collectively, referred to as the “**Thai Target Group**”), all of which are companies incorporated under Thai law (“**Proposed AAAGL Acquisition**”).

2. **DOCUMENTS REVIEWED**

For the purposes of this Opinion Letter, we have examined the Reviewed Documents (as defined below) and relied upon the statements as to factual matters contained in or made pursuant to each of the Reviewed Documents.

3. **DEFINITIONS**

In this Opinion Letter:

“**AAAGL SSPA**” means the conditional share sale and purchase agreement dated 25 April 2024 for the Proposed AAAGL Acquisition for a purchase consideration of RM3,000.00 million (as amended, varied and supplemented by the Supplemental Agreement and the Second Supplemental Agreement).

“**Agreements**” means collectively, the AAAGL SSPA, the Supplemental Agreement and the Second Supplemental Agreement.

“**Constitutional Documents**” means the documents as stated in Part 1 of the Schedule 1 (*Documents Reviewed*).

“**MOC**” means Ministry of Commerce of Thailand.

“**NewCo**” means AirAsia Group Berhad (formerly known as AirAsia Aviation Group Sdn Bhd).

“**Parties**” or “**Party**” means any party to the Agreements.

“**Reviewed Documents**” means the documents listed in Schedule 1 (*Documents Reviewed*).

“**RM**” means the lawful currency of Malaysia.

“**SET**” means the Stock Exchange of Thailand.

“**Second Supplemental Agreement**” means the second supplemental agreement to the AAAGL SSPA dated 4 September 2024 entered into between Capital A (as seller) and AAX (as purchaser), for the purpose of making certain amendments and variations to the AAAGL SSPA (as amended and supplemented by the Supplemental Agreement).

“**Supplemental Agreement**” means the supplemental agreement to the AAAGL SSPA dated 26 July 2024 entered into between Capital A (as seller), NewCo (as original purchaser) and AAX (as new purchaser), for the purpose of making certain amendments and variations to the AAAGL SSPA. Pursuant to the Supplemental Agreement, AAX has assumed the rights, benefits, title, interests, obligations and liabilities of NewCo to the AAAGL SSPA as the new purchaser in respect of the Proposed AAAGL Acquisition.

“**Thai Law**” means all laws, regulations, statutes, orders, decrees including emergency decrees, royal decrees, ministerial decrees, guidelines, notices, circulars, notifications, judicial interpretations and subordinate legislation of Thailand currently in effect.

“**THB**” means the lawful currency of Thailand.

4. **THAI LAW**

For the purpose of this Opinion Letter, we do not purport to be experts on, or generally familiar with, any laws other than the laws of Thailand. Accordingly, we express no opinion herein with regard to any system of law other than the laws of Thailand as currently applied by the courts of Thailand. This opinion is to be construed in accordance with Thai Law as at the date of this Opinion Letter.

5. **ASSUMPTIONS**

In considering the Reviewed Documents in rendering this Opinion Letter, we have assumed that:

- (a) each document in Schedule 1 (*Documents Reviewed*) is complete, correct and in full force and effect and has not been varied or revoked as at the date hereof;
- (b) all public records of the Thai Target Group that we have examined are accurate and that the information disclosed in the searches relating to the relevant Constitutional Documents which we conducted against the Thai Target Group at the MOC are true and complete and that such information has not since then been altered and that such searches did not fail to disclose any information that had been delivered for registration but did not appear on the public records at the date of our searches;
- (c) the register of shareholders is accurate and up-to-date and such information therein is as specified in the list of shareholders provided as a part of the Constitutional Documents;
- (d) the signatures and seals on all the documents submitted to us whether as copies or originals are genuine and any documents delivered to us as copies were complete and correct copies of the originals which are complete and authentic;

APPENDIX XIV(B) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF THAILAND (cont'd)

- (e) each of the Parties has legal personality and is duly incorporated or organised and validly existing and in good standing under the laws of its jurisdiction of incorporation or organisation and of any other jurisdiction in which the conduct of its business or the ownership of its property makes such assumption necessary;
- (f) each of the Parties has the capacity, power and authority to enter into, to execute and deliver and to perform their respective obligations under the Agreements;
- (g) the due execution and delivery by the Parties of the Agreements;
- (h) the Agreements constitute legal, valid and binding obligations of the Parties under the laws of its place of incorporation or organisation and all other applicable laws (excluding the Thai Law);
- (i) the execution, delivery and performance by the Parties of the Agreements has been and remains duly approved and authorised by all necessary corporate, governmental and other action in accordance with its constitutive documents, the laws of its place of incorporation or organisation and all other applicable laws, and will not violate any contract or undertaking to which either of the Parties is a party or by which it is bound;
- (j) the Agreements which are subject to laws other than the laws of Thailand are legally valid and binding and enforceable under the laws to which they are expressed to be subject;
- (k) the completeness and conformity to originals of all documents supplied to us as certified, facsimile or electronic copies and the authenticity of the originals of such documents;
- (l) all exemptions, consents, approvals and authorisations of all governmental or other authorities or agencies which are required in connection with the execution, delivery, issue and performance of the Agreements by all Parties thereto (other than under law of Thailand) have been or will be obtained;
- (m) each of the factual statements contained in the Agreements is true and correct (other than those expressly opined on herein);

APPENDIX XIV(B) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF THAILAND (cont'd)

- (n) if applicable, all appropriate filings and registrations in connection with the Agreements have been or will be duly effected in all relevant jurisdictions within all applicable time periods;
- (o) if applicable, all powers of attorney issued by the Thai Target Group or the Parties or duly appointed attorneys (as the case may be) have not been revoked and remain in full force and effect;
- (p) if applicable, none of the assets or rights expressed to be pledged or assigned pursuant to the Agreements has been pledged, assigned, sold or disposed of, or is the subject of any encumbrance, other than pursuant to, or as permitted by the Agreements;
- (q) the warranties and representations in the Agreements given by each of the Parties as to factual matters (other than the matters in relation to or on which opinions are given in this Opinion Letter) were, are and will be true and correct in all material respects;
- (r) when executing the Agreements, each of the Parties is not and/or was not deemed insolvent within the meaning of the insolvency legislation applicable in Thailand and each of the Parties has not taken any corporate or other action nor has any steps been taken or legal proceedings been started against any Party for the liquidation, winding-up, dissolution, reorganisation, rehabilitation or administration of such Party or for the appointment of a liquidator, receiver, planner, plan administrator, trustee, administrator, administrative receiver or similar officer of any Party or all or any of its assets and that each of the Parties is not insolvent or unable to pay its debts and has not been dissolved; and
- (s) the terms and conditions of the Agreements have not been amended, modified, or supplemented by any other agreement or understanding of the parties or waiver of any of the material provisions of the Agreements.

In the course of our examination, we have found nothing to indicate that the above assumptions are not justified but we have not endeavoured to make any independent verification of such factual assumptions. As to any facts material to the opinion expressed herein which were not independently established or verified, we have relied upon certificates, statements and representations of officers and other representatives of the Thai Target Group.

The opinions given in this Opinion Letter are strictly limited to the matters stated in paragraph 6 (*Opinions*) and do not extend to any other matters.

6. **OPINIONS**

Based on the foregoing and subject to the assumptions set out in paragraph 5 and the qualifications set out in paragraph 7 hereof, we are of the opinion that:

6.1 **Corporate Existence**

Each of AAV, TAA and AACCL was duly incorporated and validly existing under the laws of Thailand, and each of them is a separate legal entity capable of suing or being sued in its own name and has power under its Constitutional Documents to carry on its business and to own its assets.

6.2 **Capacity of the Thai Target Group and enforceability of agreements, representations and undertakings**

(a) Each of AAV, TAA and AACCL has full capacity, power and authority under its respective Constitutional Documents to enter into valid and binding agreements, make representations and commit to undertakings in their own respective names in Thailand.

(b) Based on instructions from AAX:

(1) each of AAV, TAA and AACCL is not signatory to any document relating to the Proposed AAAGL Acquisition, including but not limited to the Agreements;

(2) AAX has not entered into any agreements with the Thai Target Group and has not provided any representations or undertakings to the Thai Target Group; and

(3) the Thai Target Group has not provided any representations or undertakings to AAX,

which would otherwise require us to review or opine on.

6.3 **Non-conflict**

The indirect acquisition of the Thai Target Group by AAX under the Agreements will not conflict with, result in a breach or violation of, or constitute a default under any Thai Law or regulation applicable to companies generally and the Thai Target Group's Constitutional Documents.

6.4 Bankruptcy, Business Reorganization and Liquidation

Based on our bankruptcy and corporate searches dated 17 September 2024 and 16 September 2024, respectively:

- (a) no petition for bankruptcy or business reorganization in respect of each of AAV, TAA and AACCL has been filed with the Central Bankruptcy Court or the Business Reorganization Office; and
- (b) no notice or application of bankruptcy, liquidation or dissolution in respect of each of AAV, TAA and AACCL has been registered at the Department of Business Development, Ministry of Commerce.

6.5 Shareholding Structure

AAV

Based on the Constitutional Documents:

- (a) AAV has a registered capital of THB 1,285,000,000.00 and a paid-up capital of THB 1,284,999,999.70 divided into THB 12,850,000,000 authorized shares and 12,335,714,284 issued ordinary shares, with par value of THB 0.10 each; and
- (b) AAAGL holds 5,230,616,671 shares in AAV, constituting approximately 40.71% of shares in AAV.

TAA

Based on the Constitutional Documents:

- (a) TAA has a registered capital of THB 967,969,520 which are fully paid up divided into 96,796,952 ordinary shares with a par value of THB 10 per share; and
- (b) AAV holds 96,796,945 shares in TAA, constituting approximately 99.99% of shares in TAA.

AACCL

Based on the Constitutional Documents:

- (a) AACCL has a registered capital of THB 10,000,000 and a paid-up capital of THB 2,500,000 divided into 1,000,000 ordinary shares with a par value of THB 10 per share; and
- (b) TAA holds 999,997 shares in AACCL, constituting approximately 99.99% of shares in AACCL.

6.6 Consents, registrations and approvals

Except for the notification to inform the SET in respect of the changes in major shareholder of AAV upon the completion of the Proposed AAAGL Acquisition, it is not necessary that the Agreements be filed, recorded or enrolled with any court or other authority in Thailand, or be notarised or consularised in order to ensure the validity, priority, admissibility in evidence or effectiveness of the Agreements, save for translating the Agreements into Thai language.

6.7 Ownership of Titles to Securities or Assets of the Thai Target Group in Thailand

Based on the Constitutional Documents and our legal due diligence exercise as of 26 July 2024:

- (a) AAAGL holds 5,230,616,671 shares in AAV, constituting approximately 40.71% of shares in AAV;
- (b) AAV holds 96,796,945 shares in TAA, constituting approximately 99.99% of shares in TAA;
- (c) TAA holds 999,997 shares in AACCL, constituting 99.99% of all shares issued by AACCL;
- (d) TAA holds 250,985 shares (out of 4,171,385 shares) in Teleport Everywhere Pte. Ltd., a company registered under Singapore law, constituting 6.02% of all shares issued by Teleport Everywhere Pte. Ltd.;
- (e) TAA owns one title deed no. 32085 and one building located at no. 228 Sanambin Sub-district, Don Mueang District, Bangkok which are subject to (i) a first rank mortgage dated 5 March 2019 with the mortgage amount of THB 1,500,000,000 in favor of KASIKORNBANK Public Company

Limited and (ii) a second rank mortgage dated 14 July 2021 with the mortgage amount of THB 500,000,000 in favor of KASIKORNBANK Public Company Limited;

- (f) TAA owns some aircraft, one aircraft A320-216 (MSN 6170) has been subject to business security in favor of Land and Houses Bank Public Company Limited with the maximum secured amount of THB 918,852,216.42; and
- (g) Each of the companies within the Thai Target Group does not own any intellectual property in Thailand.

7. **Qualifications**

This opinion is subject to the following qualifications:

(a) **Limitations on public information and searches**

The certified up-to-date corporate information registered with the MOC available does not include information relating to encumbrances, pledges or assignments over corporate assets, nor is it possible to conduct conclusive searches to ascertain whether bankruptcy proceedings have been initiated in Thailand or whether encumbrances, pledges or assignments over such assets exist.

(b) **Limitation periods**

Claims may become barred by prescription under the Civil and Commercial Code of Thailand if they are not enforced within the period of time fixed by Thai Law.

(c) **Need for Thai translation in Thai proceedings**

Thai translations of the Agreements are required as a condition to their admissibility in evidence in the courts of Thailand, except in the Intellectual Property and International Trade Court, which in its discretion may waive the requirement for a Thai translation.

(d) **Admissibility of documents in court**

A Thai court generally requires that original documents be submitted to the court before they can be admitted in evidence. By way of exception, copies of documents may be submitted by a party to legal proceedings

before a Thai court either (a) where the parties to the dispute agree to accept such copy for the purposes of the proceedings or (b) where it can be proven that the original cannot be submitted to the court because it has been damaged by force majeure or lost or due to other causes which are not the circumstances that such party is responsible for or the court deems that it is necessary and in the interests of justice to admit such copied document. Where the copy does not indicate that the original was stamped, then the general requirement is for the copy to be stamped in order to be admitted, although we are aware of a number of Supreme Court decisions which have accepted copies without evidence of stamping.

(e) Authority of Thai court

The courts of Thailand have absolute discretion in deciding issues regarding the public order and good morals of Thailand.

Any provision, determination, certificate, account record and/or matters stipulated in the Agreements and/or any other relevant documents and/or instruments, to be conclusive may nevertheless be subject to review by the courts of Thailand.

(f) Double proceedings not permitted

The taking of proceedings in one court in Thailand may preclude the taking of proceedings in any other court in Thailand on the same subject matter.

(g) Requirement of reasonableness

The award of damages requires proof of damage which must be the direct or reasonably foreseeable consequence of the breach. Under the laws of Thailand, compensation shall be for actual damages, losses, costs, and/or expenses, arising from the non-performance, or from special circumstances foreseen or ought to have been foreseen by the party concerned. The courts of Thailand shall have discretion to determine the manner and the extent of compensation according to the circumstances, the amount of which however may not exceed the amount claimed. A right to liquidated damages provided for in the Agreements may be treated as a penalty and the quantum of the liquidated damages and penalty may therefore be reduced in a court of Thailand's discretion if the court is of the view that the penalty is disproportionately high.

(h) **Opinion on commercial terms**

We express no view as to the commercial terms of the Agreements or whether such terms represent the intentions of the Parties and make no comment with regard to the representations that may be made by any party to them.

(i) **Unfair Contract Terms**

Under the Unfair Contract Terms Act B.E. 2540 (1997), a provision in an agreement that is found by Thai courts to be unfair as characterised in such Act would be enforceable only to the extent that it is fair and reasonable. As the determination of unfair terms is at the discretion of the courts, we express no view as to whether any provision in the Agreements might be unfair.

(j) **Declaration of intention**

Under the laws of Thailand, the declaration of intention to a person who is present, including the declaration of intention by telephone or by other communication facilities or by other similar means of communication, is deemed to take effect from the time when the recipient knows of such declaration of intention. However, the declaration of intention to a person who is not present is deemed to take effect from the time when it reaches the recipient. As a result, the provisions contained in an agreement with respect to the assumption of the dates when all notices and other communications shall be deemed to have been duly given, which does not conform to the laws of Thailand as aforementioned, may not be valid and enforceable in Thailand.

(k) **Meaning of references to Thai Law**

Insofar as the opinion expressed herein refers to the law or laws of Thailand, such references include Royal Decrees, Ministerial Decrees, Ministerial Regulations and Notifications, and Supreme Court judgements and are limited to those which are published and available to the public as of the date hereof.

(l) **Fact**

We express no opinion on matters of fact.

APPENDIX XIV(B) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF THAILAND (cont'd)

The opinions expressed herein are as of the date hereof, and we undertake no responsibility to update this Opinion Letter after the date hereof and assume no responsibility for advising you of any changes with respect to any matters described in the opinion that may occur subsequent to the date hereof or with respect to the discovery subsequent to the date hereof information not previously known to us pertaining to events occurring prior to the date hereof.

This Opinion Letter is rendered to you solely for the purpose of and in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. Save as provided herein, this Opinion Letter shall not be quoted nor shall a copy be given to any person (apart from the addressee and its professional advisers engaged for the Proposed AAAGL Acquisition) without our express prior written consent except where such disclosure is required to be made by the applicable law or is requested by the Bursa Malaysia Securities Berhad, Securities Commission Malaysia or any other regulatory agency and to be enclosed in the Circular.

Yours faithfully,



CHANDLER MHM LIMITED

**SCHEDULE 1
DOCUMENTS REVIEWED**

Part 1 - Constitutional Documents

1. Affidavit of AAV, issued by the MOC on 16 September 2024;
2. Affidavit of TAA, issued by the MOC on 16 September 2024;
3. Affidavit of AACCL, issued by the MOC on 16 September 2024;
4. Memorandum of Association of AAV, certified by the MOC on 16 September 2024;
5. Memorandum of Association of TAA, certified by the MOC on 16 September 2024;
6. Memorandum of Association of AACCL, certified by the MOC on 16 September 2024;
7. Articles of Associations of AAV, certified by the MOC on 16 September 2024;
8. Articles of Associations of TAA, certified by the MOC on 16 September 2024;
9. Articles of Associations of AACCL, certified by the MOC on 16 September 2024;
10. List of Shareholders of TAA as of 5 September 2023, certified by the MOC on 16 September 2024;
11. List of Shareholders of AACCL as of 31 May 2024, certified by the MOC on 16 September 2024;
12. Shareholder Register Book of TAA as of 4 June 2024; and
13. Shareholder Register Book of AACCL as of 3 July 2024.

Part 2 - Opinion Document

1. The Agreements.

APPENDIX XIV(C) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF THE PHILIPPINES



Date: 19 September 2024

AirAsia X Berhad

RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan, Malaysia

Attention: The Board of Directors

RE: Legal Opinion in connection with the proposed acquisition by AirAsia X Berhad (“AAX”) of 100% equity interest in AirAsia Aviation Group Limited (“AAAGL”) held by Capital A Berhad (“Capital A”) for a purchase consideration of RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 new ordinary shares in AAX at an issue price of RM1.30 each (“Proposed AAAGL Acquisition”)

Dear Sirs,

We are a firm of lawyers qualified to advise on the Philippine law and have been instructed by AAX to issue a legal opinion (“**Legal Opinion**”) for your benefit in connection with AAX’s circular to shareholders (“**Circular**”) in respect of, amongst others, the Proposed AAAGL Acquisition resulting in an indirect acquisition of (i) AirAsia Inc. (“**AAI**”), (ii) Philippines AirAsia, Inc. (“**PAA**”), (iii) Asiawide Airways Inc. (“**AWAI**”), and (iv) AA Com Travel Philippines Inc. (“**AACTP**”) (collectively, the “**Philippines Subsidiaries**”), all of which are companies incorporated under Philippine law.

In providing this Legal Opinion, we have assumed that each of the parties in respect of the Agreements (as defined below) pursuant to the Proposed AAAGL Acquisition has:

- (a) the legal personality and is duly incorporated or organised and validly existing and in good standing under the laws of its jurisdiction of incorporation or organisation and of any other jurisdiction in which the conduct of its business or the ownership of its property makes such assumption necessary; and
- (b) the capacity, power and authority to enter into, to execute and deliver and to perform their respective obligations under the following agreements (collectively, the “**Agreements**”):
 - (i) the conditional share sale and purchase agreement dated 25 April 2024 entered into between Capital A (as seller) and AirAsia Group Berhad (formerly known as AirAsia Aviation Group Sdn. Bhd.) (“**NewCo**”) (as purchaser) in respect of the sale and purchase of the entire equity interest in AAAGL (“**AAAGL SSPA**”);
 - (ii) the supplemental agreement to the AAAGL SSPA dated 26 July 2024 entered into between Capital A (as seller), NewCo (as original purchaser) and AAX (as new purchaser) for the purpose of making

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Salcedo Village, Makati
Philippines 1209

APPENDIX XIV(C) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF THE PHILIPPINES (cont'd)

certain amendments and variations to the AAAGL SSPA (“**Supplemental Agreement**”); and

- (iii) the second supplemental agreement to the AAAGL SSPA dated 4 September 2024 entered into between Capital A and AAX for the purpose of making certain amendments and variations to the AAAGL SSPA (as amended and supplemented by the Supplemental Agreement).

As to questions of fact material to our conclusions expressed herein, we have not independently established such facts, and we relied solely upon the statements of fact contained in the documents we have examined. We have no reason to believe that such reliance was not justified.

The opinions hereinafter set forth are limited to matters of Philippine law, and no opinion is expressed as to the laws of any other jurisdiction other than the Republic of the Philippines.

In rendering this Legal Opinion, we have conducted a search of the records of the Securities and Exchange Commission (“**SEC**”) as of 30 August 2024 and examined the following documents:

1. AAI

- (a) The Certificate of Filing of the Amended Articles of Incorporation of AAI, bearing the seal of the SEC, dated 4 April 2014;
- (b) The notarized Amended Articles of Incorporation of AAI dated 4 April 2014;
- (c) The notarized Certificate of Amendment of the Articles of Incorporation of AAI dated 18 March 2014; and
- (d) The notarized General Information Sheet (“**GIS**”) of AAI dated 17 April 2024 and submitted by AAI to the SEC on 17 April 2024.

2. PAA

- (a) The Certificate of Filing of the Amended Articles of Incorporation of PAA, bearing the seal of the SEC, dated 14 September 2015;
- (b) The notarized Amended Articles of Incorporation of PAA dated 14 September 2015;
- (c) The notarized Directors’ Certificate of the Amendment of the Articles of Incorporation of PAA dated 12 August 2015; and
- (d) The notarized GIS of PAA dated 1 July 2024 and submitted by AAI to the SEC on 26 June 2024.

3. AWAI

- (a) The Certificate of Filing of the Amended Articles of Incorporation of AWAI, bearing the seal of the SEC, dated 14 October 2008;
- (b) The notarized Amended Articles of Incorporation of AWAI dated 14 October 2008;
- (c) The notarized Directors’ Certificate of the Amendment of the Articles of Incorporation of AWAI dated 25 September 2008; and
- (d) The notarized GIS of AWAI dated 12 January 2023 and submitted by AWAI to the SEC on 17 January 2023.

4. AACTP

- (a) The Certificate of Incorporation of AACTP, bearing the seal of the SEC, dated 19 June 2020;
- (b) The Articles of Incorporation of AACTP dated 19 June 2020; and
- (c) The notarized GIS of AACTP dated 16 July 2024 and submitted by AACTP to the SEC on 16 July 2024.

APPENDIX XIV(C) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF THE PHILIPPINES (cont'd)

Based upon the foregoing, we opine as follows:

1. Corporate Existence

Each of the Philippines Subsidiaries is duly incorporated and validly existing under the laws of the Republic of Philippines, and each of them has the capacity and the corporate powers to enter into valid and binding agreements, make representations, commit to undertakings, and to sue and be sued under its corporate name.

2. Ownership of title to the shares in the Philippines Subsidiaries

Based on the latest GIS and constitutional documents of the respective Philippine Subsidiaries:

AAI

- (a) AAI has an issued share capital/subscribed capital of 597,510,500.00 Philippine pesos (“PHP”) divided into 5,975,105 common shares;
- (b) AAAGL holds 2,390,039 shares in AAI, constituting approximately 40% of shares in AAI; and
- (c) AACTP holds 3,585,059 shares in AAI, constituting approximately 60% of shares in AAI.

PAA

- (a) PAA has an issued share capital/subscribed capital of PHP595,000,000.00 divided into 171,078,431 common shares and 423,921,569 preferred shares; and
- (b) AAI holds 169,078,424 common shares and 423,921,569 preferred shares in PAA, constituting approximately 99.66% of shares in PAA.

AWAI

- (a) AWAI has an issued share capital/subscribed capital of PHP125,000,000.00 divided into 1,250,000 common shares; and
- (b) AAI holds 1,249,991 common shares in AWAI, constituting approximately 100% of shares in AWAI.

AACTP

- (a) AACTP has an issued share capital/subscribed capital of PHP10,500,000.00 divided into 10,500,000 common shares; and
- (b) AAAGL holds 10,499,995 common shares in AACTP, constituting approximately 100% of shares in AACTP.

3. Enforceability of agreements, representations and undertakings given by the Philippines Subsidiaries and the laws of the Republic of the Philippines

Based on the confirmation from AAX, the Philippines Subsidiaries are not signatory to any Agreements relating to the Proposed AAAGL Acquisition, and none of the Philippines

APPENDIX XIV(C) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF THE PHILIPPINES (cont'd)

Subsidiaries has provided representations or undertakings to AAX in relation to the Proposed AAAGL Acquisition, which would otherwise require us to review or opine on.

AAX has not entered into any agreements with any of the Philippines Subsidiaries and has not provided any representation or undertakings to the Philippines Subsidiaries in relation to the Proposed AAAGL Acquisition, which would otherwise require us to review or opine on.

4. Rehabilitation, insolvency and liquidation

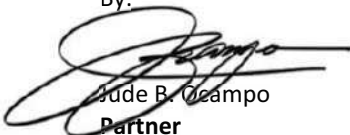
Based on our Corporate Searches and our Litigation Searches dated 18 September 2024 for AAI, PAA and AWA; and 19 September 2024 for AACTP, no petition for rehabilitation and liquidation has been instituted against any of the Philippines Subsidiaries with the Philippine Regional Trial Courts with jurisdiction over such Philippines Subsidiaries.

This Legal Opinion is addressed to AAX solely for its benefit in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. Save for Mah-Kamariyah & Philip Koh, Advocates and Solicitors and Inter-Pacific Securities Sdn Bhd as well as any other advisers to AAX in relation to the Proposed AAAGL Acquisition, this Legal Opinion is not to be transmitted to anyone else nor is it to be relied upon by anyone else or used for any other purpose or quoted or referred to in any public document or filed with anyone without our express consent, except where such disclosure is required to be made by applicable law or is requested by Bursa Malaysia Securities Berhad or any other regulatory agency and to be enclosed in the Circular.

Very truly yours,

OCAMPO & SURALVO LAW OFFICES

By:



Jude B. Ocampo
Partner

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA

DENTONS HPRP

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Ref. No.: 1324/HPRP/IX/24

Jakarta, 20 September 2024

AirAsia X Berhad

RedQ, Jalan Pekeliling 5
Lapangan Terbang Antarabangsa Kuala Lumpur
64000 KLIA
Selangor Darul Ehsan, Malaysia

Dear Sirs,

Legal Opinion in connection with the proposed acquisition by AirAsia X Berhad (“AAX”) of 100% equity interest in AirAsia Aviation Group Limited (“AAAGL”) held by Capital A Berhad (“Capital A”) for a purchase consideration of RM3,000.00 million to be satisfied entirely via the allotment and issuance of 2,307,692,307 new ordinary shares in AAX at an issue price of RM1.30 each (“Proposed AAAGL Acquisition”)

We, **Hanafiah Ponggawa & Partners** (“we”, “us”, “our” or “**Dentons HPRP**”), act as the Indonesian legal counsel to AAX and have been instructed to issue a legal opinion (“**Legal Opinion**”) in connection with AAX’s circular to shareholders (“**Circular**”) with respect to, amongst others, the proposed acquisition by AAX of 100% equity interest in AAAGL, a wholly-owned subsidiary of Capital A. Capital A, through AAAGL, has indirect equity interests in the Indonesian subsidiaries namely (i) PT AirAsia Indonesia, Tbk. (“**AAI**”), (ii) PT Indonesia AirAsia (“**IAA**”), and (iii) PT Garda Tawang Reksa Indonesia (“**GTRI**”) (collectively, the “**Indonesian Subsidiaries**”).

The opinions expressed herein are limited to questions arising under the laws of the Republic of Indonesia and are based only on laws and regulations in force as of the date of this Legal Opinion. We do not purport to express an opinion on any questions arising under the laws of any other jurisdiction. We have made no investigation of the laws of any country, state, or jurisdiction other than the laws of the Republic of Indonesia.

For the purposes of providing this Legal Opinion, we have examined and relied on the list of reviewed documents (“**Documents**”) and relevant laws and regulations listed in **Schedule I** of this Legal Opinion.

A. ASSUMPTIONS

In rendering this Legal Opinion, we have assumed:

1. the genuineness of all signatures to all Documents viewed by us, the authenticity of all Documents submitted to us as originals, the conformity with the originals of all Documents submitted to us as copies;
2. that the originals or photocopies of all documents submitted to us to-date as listed in **Schedule I** of this Legal Opinion are complete and there are no amendments, additions, replacements and exceptions to such documents;
3. that all facts stated in the Documents as listed in **Schedule I** of this Legal Opinion submitted to us are correct, and that no relevant matter was withheld from us, whether deliberately or inadvertently; note that we have made no independent investigation of the facts expressed therein;

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APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

AirAsia X Berhad

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4. the accuracy and correctness of statements made by the management and/or personnel of the Indonesian Subsidiaries and verbal information provided by them;
5. the Indonesian Subsidiaries are neither registered nor involved under any legal proceedings under the jurisdiction of the District Court of Tangerang;
6. that the Indonesian Subsidiaries will not execute or has not executed any documents for the purposes of concluding the Proposed AAAGL Acquisition ("**Transaction Documents**"); and
7. under Indonesian legislation, for a public company, the shareholders register shall be maintained and prepared by the Security Administration Bureau as the Shares Registrar, instead of the relevant board of directors of the public company. Therefore, we assume that all information contained in the shareholders register maintained by the Shares Registrar is true, accurate, and not misleading in any manner. Consequently, the preparation of the shareholders register by the Shares Registrar relieves the board of directors of the obligation to prepare and maintain the shareholders register under the Law No. 40 of 2007 on Limited Liability Company as lastly amended by Law No. 6 of 2023 on Enactment of the Regulation of the Government in Lieu of Law No. 2 of 2022 on Job Creation Into Law ("**Company Law**").

B. OPINIONS

Based on the assumptions and matters relied upon stated above and subject to the qualifications and limitations stated below, unless a court of competent jurisdiction opines otherwise, it is our opinions that:

1. Due incorporation of the Indonesian Subsidiaries

Each of the Indonesian Subsidiaries is a limited liability company duly incorporated for an indefinite period and validly existing under the laws of the Republic of Indonesia and has the legal capacity to file suit and has a suit filed against it in its own name.

Based on our checking through the official website of the Directorate General of General Law Administration, the Ministry of Law and Human Rights of Indonesia ("**MOLHR Database**") as well as the court searches results as listed in **Section B, Schedule I** of this Legal Opinion, to the best of our knowledge, no bankruptcy petitions have been presented nor have bankruptcy orders been made against the Indonesian Subsidiaries, no suspension of payment has been applied for by the Indonesian Subsidiaries, and no resolutions have been passed for the winding up or liquidation of the Indonesian Subsidiaries.

2. Ownership of title to the shares directly or indirectly owned by AAAGL in the Indonesian Subsidiaries

2.1 According to the Company Law, the shareholders of a company may only exercise their rights vested over their ownerships of shares, which are amongst others, (i) attending and voting at the General Meeting of Shareholders; (ii) receiving payment of dividends and the remainder of assets from liquidation, and (iii) exercising other rights under the Company Law, upon their registration in the shareholder's register.

2.2 The shareholders shall be provided with evidence of their ownership of shares of the company, which can be in the form of shares certificate. However, the absence of shares certificate does not consequently nullify the shareholders' ability to exercise their rights over shares as their rights over shares are vested upon their registration of ownership in the shareholder's register of the company.

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

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2.3 In connection with AAI:

AAAGL is registered as one of the shareholders in AAI, and it has valid legal title to the shares it holds in AAI. AAI, as a listed company, shall not issue and distribute share certificates to its shareholders, as every share of a listed company is traded in scripless form.

According to AAI's consolidated financial statements as of 31 December 2023 and shareholder register as of 30 June 2024 issued by the Security Administration Bureau (Shares Registrar) available at the official website of the Indonesia Stock Exchange on 10 July 2024, AAAGL is listed as one of the shareholders of AAI, holding 4,942,013,300 shares with a total nominal value of IDR1,235,503,325,000, representing 46.25% of the shares issued by AAI.

2.4 In connection with IAA:

AAAGL is registered as one of the shareholders of IAA and it has valid legal title to the shares it holds in IAA.

Further, according to our searches at the MOLHR Database, as of 18 July 2024, (i) AAAGL is listed as one of the shareholders of IAA, holding 88,200 shares with a total nominal value of IDR88,200,000,000, representing 21% of the shares issued by IAA; and (ii) AAI is listed as one of the shareholders of IAA, holding 241,066 shares with a total nominal value of IDR241,066,000,000, representing 57% of the shares issued by IAA.

2.5 In connection with GTRI:

IAA is registered as one of the shareholders of GTRI and it has valid legal title to the shares it holds in GTRI.

Further, according to our searches at the MOLHR Database, as of 18 July 2024, IAA is listed as one of the shareholders of GTRI, holding 10,050 shares with a total nominal value of IDR10,050,000,000, representing 67% of the shares issued by GTRI.

3. Enforceability of agreements, representations and undertakings given by the Indonesian Subsidiaries under the laws of the Republic of Indonesia

3.1 Based on confirmation from AAX, the Indonesian Subsidiaries are not signatory to any Transaction Documents relating to the Proposed AAAGL Acquisition, and neither of the Indonesian Subsidiaries has provided representations or undertakings to AAX in relation to the Proposed AAAGL Acquisition, which would otherwise require us to review or opine on.

3.2 AAX has not entered into any agreements with any of the Indonesian Subsidiaries and has not provided any representation or undertakings to the Indonesian Subsidiaries in relation to the Proposed AAAGL Acquisition, which would otherwise require us to review or opine on.

C. QUALIFICATIONS

This opinion is subject to the following qualifications:

1. This Legal Opinion is limited to and relates solely to the laws of the Republic of Indonesia, as at the date of this Legal Opinion. This Legal Opinion is confined to matters of the laws of the Republic of Indonesia, and is given on the basis that it will be governed by and construed in accordance with such laws. Accordingly, we do not express or imply any report as to any laws

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

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other than the laws of the Republic of Indonesia and we have made no investigation of any other laws which may be relevant to the documents submitted to us.

2. This Legal Opinion will not always be operable in some circumstances, such as:
 - a. its validity may be influenced by judgments permitting the operability of other evidence to alter the terms or the interpretations of the documents;
 - b. claims might be nullified according to Indonesian law in connection with the expiration of claims or actions or lawsuits to be submitted; and
 - c. enforcement may be affected by public policy. The Indonesian Courts will not enforce obligations which are contrary to public policy.
3. Indonesian judges operate in an inquisitorial legal system, have very broad fact-finding powers and a high level of discretion in relation to the matter in which those powers are exercised. Consequently, Indonesian judges can sometimes be influenced by factors, issue and evidence which may not be immediately apparent on the face of the court document in question.
4. This Legal Opinion is prepared based on and is limited to information provided by the Indonesian Subsidiaries in (i) the Documents listed in **Schedule I** of this Legal Opinion made available to us up to 12 July 2024; and (ii) virtual meetings with the management of the Indonesian Subsidiaries, and we have not attempted independently to verify all the information provided by the Indonesian Subsidiaries.
5. We are not rendering any opinion with regard to commercial, taxation, accountancy, finance, and operations.
6. While we are legal counsel advising on matters of Indonesian law and qualified to practice under the laws of the Republic of Indonesia, this Legal Opinion shall not be construed as surety or a guarantee.

D. RESERVATIONS

1. This Legal Opinion is given on 20 September 2024 and is delivered only in respect of Indonesian law in force as of 30 August 2024. This opinion is provided to you as a legal opinion only and not as a guarantee or warranty of the matters discussed herein or in the documents referred to herein.
2. This opinion is addressed to the addressee hereof solely for the benefit of such addressee hereof in connection with the Proposed AAAGL Acquisition, in particular the issuance of the Circular. Save for Mah-Kamariyah & Philip Koh, Advocates and Solicitors and Inter-Pacific Securities Sdn Bhd as well as any other advisers to AAX in relation to the Proposed AAAGL Acquisition, it is not to be transmitted to anyone else nor is it to be relied upon by anyone else or for any other purpose or quoted or referred to in any public document or filed with anyone without our express written consent except where such disclosure is required to be made by applicable law or is requested by Bursa Malaysia Securities Berhad or any other regulatory agency. This Legal Opinion will be annexed to the Circular in respect of an extraordinary general meeting to be convened to approve, amongst others, the Proposed AAAGL Acquisition.
3. Our views on liability are subject to, amongst others, the discretion of the court or arbitrator, the evidence adduced in court or in arbitration and the factual matrix of the relevant matter before the

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

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court or arbitrator. Accordingly, we do not make any representation as to the actual outcome of any matter.

This Legal Opinion is limited to the matters addressed herein and is not to be read as an opinion with respect to any other matter.

Yours faithfully,
Hanafiah Ponggawa & Partners

Hanafiah Ponggawa & Partners

Schedule I

List of Reviewed Regulations and Documents

A. Regulations

1. Law No. 40 of 2007 on Limited Liability Company as lastly amended by Law No. 6 of 2023 on Enactment of the Regulation of the Government in Lieu of Law No. 2 of 2022 on Job Creation Into Law;
2. Law No. 1 of 2009 on Aviation as amended by Law No. 6 of 2023 on Enactment of the Regulation of the Government in Lieu of Law No. 2 of 2022 on Job Creation Into Law (“**Aviation Law**”); and
3. Government Regulation No. 32 of 2021 on the Implementation on Aviation Sector (“**GR 32/2021**”).

B. Searches

Company Searches

1. Company profile of AAI generated from the official website of the MOLHR, accessed on 18 July 2024;
2. Company profile of IAA generated from the official website of the MOLHR, accessed on 18 July 2024; and
3. Company profile of GTRI generated from the official website of the MOLHR, accessed on 18 July 2024.

Court Searches

1. AAI
 - a. Statement Letter of Indonesian National Arbitration Board (*Badan Arbitrase Nasional Indonesia* – “**BANI**”) No. 24.183/SKB/VI/BANI/WD dated 28 June 2024;
 - b. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1413/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Intellectual Property Rights);
 - c. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1412/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Bankruptcy and Suspension of Debt Payments);
 - d. Statement Letter of the Industrial Relations Court at the District Court of Serang No. 33/PAN.04.W29-U1/SKET/VII/2024 dated 3 July 2024; and
 - e. Statement Letter of the State Administrative Court of Serang No. 870/KPTUN.W2-TUN3/HK2.7/VII/2024 dated 3 July 2024.
2. IAA
 - a. Statement Letter of BANI No. 24.185/SKB/VI/BANI/WD dated 28 June 2024;
 - b. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1411/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Intellectual Property Rights);

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

- c. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1410/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Bankruptcy and Suspension of Debt Payments);
- d. Statement Letter of the Industrial Relations Court at the District Court of Serang No. 31/PAN.04.W29-U1/SKET/VII/2024 dated 3 July 2024; and
- e. Statement Letter of the State Administrative Court of Serang No. 864/KPTUN.W2-TUN3/HK2.7/VII/2024 dated 3 July 2024.

3. GTRI

- a. Statement Letter of BANI No. 24.184/SKB/VI/BANI/WD dated 28 June 2024;
- b. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1409/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Intellectual Property Rights);
- c. Statement Letter of the Commercial Court at the District Court of Central Jakarta No. 1408/PAN/W10-01/SKBP/6/2024 dated 28 June 2024 (Bankruptcy and Suspension of Debt Payments);
- d. Statement Letter of the Industrial Relations Court at the District Court of Serang No. 32/PAN.04.W29-U1/SKET/VII/2024 dated 3 July 2024; and
- e. Statement Letter of the State Administrative Court of Serang No. 866/KPTUN.W2-TUN3/HK2.7/VII/2024 dated 3 July 2024.

C. Documents

1. AAI

- a. State Gazette of the Republic of Indonesia (*Berita Negara Republik Indonesia* – “BNRI”) No. 2460 and Supplement to BNRI No. 44 dated 2 June 1992 on the establishment of AAI;
- b. Deed of Minutes of Extraordinary GMS of AAI No. 33 dated 27 June 2012, made before Recky Francky Limpele, S.H., Notary in Jakarta, which has been (i) notified to the Ministry of Law and Human Rights (“MOLHR”) as evidenced by the Notification on the Amendment of the Company’s Articles of Association (“AOA”) from the MOLHR No. AHU-AH.01.10-29271 dated 7 August 2012, (ii) registered in the Company Registry No. AHU-0072112.AH.01.09.Tahun 2012 dated 7 August 2012, and (iii) announced in the BNRI No. 8367/L and supplement of BNRI No. 99 dated 10 December 2013;
- c. Deed of Minutes of General Meeting of Shareholders (“GMS”) of AAI No. 156 dated 20 June 2014, made before Buntario Tigris Darmawa Ng, S.H., S.E., M.H., Notary in Jakarta;
- d. Deed of GMS Resolution of AAI No. 70 dated 9 July 2015, made before Buntario Tigris Darmawa Ng, S.H., S.E., M.H., Notary in Jakarta;
- e. Deed of AOA Amendment of AAI No. 81 dated 29 December 2017, made before Liestiani Wang, S.H., M.Kn., Notary in Jakarta, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0027936.AH.01.02.Tahun 2017 dated 29 December 2017, (ii) notified to the MOLHR as evidenced by the Notification on the Change of the Company’s Data from the MOLHR No. AHU-01.03-0206732 dated 29 December 2017, and (iii) registered in the Company Registry No. AHU-0167078.AH.01.11.TAHUN 2017 dated 29 December 2017;

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

- f. Deed of GMS Resolution of AAI No. 86 dated 29 December 2017, made before Liestiani Wang, S.H., M.Kn., Notary in Jakarta;
 - g. Deed of AOA Amendment of AAI No. 39 dated 16 November 2017, made before Liestiani Wang, S.H., M.Kn., Notary in Jakarta;
 - h. Deed of GMS Resolution of AAI No. 138 dated 24 May 2018, made before Liestiani Wang, S.H., M.Kn., Notary in Jakarta;
 - i. Deed of AOA Amendment of AAI No. 78 dated 24 September 2020, made before Jose Dima Satria, S.H., M.Kn., Notary in Jakarta, which has been (i) notified to the MOLHR as evidenced by the Notification on the Amendment of the Company's AOA from the MOLHR No. AHU-01.03-0400775 dated 22 October 2020, and (ii) registered in the Company Registry No. AHU-0178450.AH.01.11.TAHUN 2020 dated 22 October 2020;
 - j. Deed of GMS Resolution of AAI No. 163 dated 2 November 2022, made before Jose Dima Satria, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.09-0071983 dated 2 November 2022, and (ii) registered in the Company Registry No. AHU-0219787.AH.01.11.TAHUN 2022 dated 2 November 2022;
 - k. Deed of GMS Resolution of AAI No. 185 dated 24 March 2022, made before Jose Dima Satria, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.03-0200208 dated 24 March 2022, and (ii) registered in the Company Registry No. AHU-0058736.AH.01.11.TAHUN 2022 dated 24 March 2022;
 - l. Consolidated financial statements as of 31 December 2023 available at the official website of the Indonesia Stock Exchange on 27 May 2024; and
 - m. Monthly Report of Securities Holders Registration made by PT Bima Registra as Security Administration Bureau of AAI under its Letter dated 2 May 2024.
2. IAA
- a. Deed of Establishment of IAA No. 15 dated 28 September 1999, made before Budiono, S.H., Notary in Jakarta which has been (i) ratified by the Ministry of Justice ("MOJ") by virtue of MOJ Decree No. C-19644.HT.01.01.TH.99 dated 6 December 1999, and (ii) announced in the BNRI No. 4571 and Supplement to BNRI No. 66 dated 18 August 2000;
 - b. Deed of Minutes of Extraordinary GMS of IAA No. 5 dated 4 March 2000, made before Budiono, S.H., Notary in Jakarta, which has been approved by the MOJ by virtue of MOJ Decree No. C-15334.HT.01.TH.2000;
 - c. Deed of Minutes of Extraordinary GMS of IAA No. 37 dated 23 February 2001, made before Siti Pertiwi Henny Singgih, S.H., Notary in Jakarta;
 - d. Deed of GMS Resolution of IAA No. 4 dated 15 December 2003, made before Anne Djoenadi, S.H., MBA., Notary in Bogor Regency;
 - e. Deed of GMS Resolution of IAA No. 12 dated 29 October 2004, made before Anne Djoenadi, S.H., MBA., Notary in Bogor Regency;
 - f. Deed of GMS Resolution of IAA No. 8 dated 11 October 2006, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta which has been notified to the MOLHR as evidenced by the Receipt of Notification on the Amendment of the Company's AOA from the MOLHR No. W7-HT.01.04-4456 dated 5 December 2006;

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

- g. Deed of GMS Resolution of IAA No. 8 dated 11 October 2006, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-12981.AH.01.02.Tahun 2008 dated 17 March 2008, (ii) registered in the Company Registry No. AHU-0019182.AH.01.09.Tahun 2008 dated 17 March 2008, and (iii) announced in the BNRI No. 9740 and supplement of BNRI No. 28 dated 7 April 2009;
- h. Deed of GMS Resolution of IAA No. 32 dated 15 December 2011, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been (i) notified to the MOLHR as evidenced by the Receipt of Notification on the Amendment of the Company's AOA from the MOLHR No. AHU-AH.01.10-03135 dated 31 January 2012, and (ii) registered in the Company Registry No. AHU-0008113.AH.01.09.Tahun 2012 dated 31 January 2012;
- i. Deed of Shareholders' Resolutions of IAA No. 3 dated 6 December 2012, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been notified to the MOLHR as evidenced by the Receipt of Notification on the Change of the Company's Data No. AHU-AH.01.10-09902 dated 18 March 2013 and registered in the Company Registry No. AHU-0023750.AH.01.09.Tahun 2013 dated 18 March 2013;
- j. Deed of GMS Resolution of IAA No. 9 dated 5 April 2012, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-27159.AH.01.02.Tahun 2012 dated 22 May 2012, and (ii) registered in the Company Registry No. AHU-0045348.AH.01.09.Tahun 2012 dated 22 May 2012;
- k. Deed of GMS Resolution of IAA No. 49 dated 25 November 2014, made before Anne Djoenadi, S.H., MBA., Notary in Jakarta, which has been (i) notified to the MOLHR as evidenced by the Notification on the Amendment of the Company's AOA from the MOLHR No. AHU-08848.40.21.2014 dated 25 November 2014, and (ii) registered in the Company Registry No. AHU-0122874 dated 25 November 2014;
- l. Deed of Circular Resolution of IAA No. 4 dated 28 December 2017, made before Rizki Meuthia, S.H., M.Kn., Notary in Bogor Regency which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0027980.AH.01.02.Tahun 2017 dated 29 December 2017, (ii) notified to the MOLHR as evidenced by the Notification on the Amendment of the Company's AOA from the MOLHR No. AHU-01.03-0206886 dated 29 December 2017, (iii) registered in the Company Registry No. AHU-016720.AH.01.11.TAHUN 2017 dated 29 December 2017, and (iv) announced in the BNRI No. 10915 and supplement of BNRI No. 27 dated 29 December 2017;
- m. Deed of GMS Resolution of IAA No. 40 dated 22 August 2017, made before Edward Suharjo Wiryomartani, S.H., M.Kn., Notary in Jakarta, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0017648.AH.01.02.Tahun 2017 dated 28 August 2017, and (ii) registered in the Company Registry No. AHU-0106456.AH.01.11.TAHUN 2017 dated 28 August 2017;
- n. Deed of Circular Resolution of IAA in lieu of a GMS No. 1 dated 9 October 2018, made before Rizki Meuthia, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-AH.01.03-0251865 dated 11 October 2018, and (ii) registered in the Company Registry No. AHU-0134908.AH.01.11.TAHUN 2018 dated 11 October 2018;
- o. Deed of GMS Resolution of IAA No. 10 dated 24 October 2019, made before Rizki Meuthia, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No.

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

AHU-01.03-0351299 dated 24 October 2019, and (ii) registered in the Company Registry No. AHU. 01.09.0203968.AH.11.TAHUN 2019 dated 25 October 2019;

- p. Deed of Circular Resolution of IAA No. 1 dated 1 October 2020, made before Rizki Meuthia, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-AH.01.03-0393813 dated 2 October 2020, and (ii) registered in the Company Registry No. AHU-0166079.AH.01.11.TAHUN 2020 dated 2 October 2020;
- q. Deed of Circular Resolution of IAA No. 3 dated 16 April 2020, made before Rizki Meuthia, S.H., M.Kn., Notary in Tangerang Regency, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0030431.AH.01.02.Tahun 2020 dated 17 April 2020, and (ii) registered in the Company Registry No. AHU-0069912.AH.01.11.TAHUN 2020 dated 17 April 2020;
- r. Deed of GMS Resolution of IAA No. 5 dated 4 October 2022, made before Anne Djoenardi, S.H., MBA., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.09-0061979 dated 4 October 2022, and (ii) registered in the Company Registry No. AHU-0198025.AH.01.11.TAHUN 2022 dated 4 October 2022;
- s. Shareholders Registry of IAA dated 28 June 2024;
- t. Shares Certificates No. 1 dated 10 July 2024 registered under the name of PT Fersindo Nusaperkasa for its ownership of shares in IAA;
- u. Shares Certificates No. 2 dated 10 July 2024 registered under the name of AAAGL for its ownership of shares in IAA; and
- v. Shares Certificates No. 3 dated 10 July 2024 registered under the name of AAI for its ownership of shares in IAA.

3. GTRI

- a. Deed of Establishment of GTRI No. 24 dated 24 October 2016, made before Anne Djoenardi, S.H., MBA., Notary in Jakarta which has been ratified by the MOLHR by virtue of MOLHR Decree No. AHU-0050797.AH.01.01.TAHUN 2016 dated 15 November 2016;
- b. Deed of Circular Resolution of GTRI No. 4 dated 23 April 2018, made before Rizki Meuthia, S.H., M.Kn., Notary in Tangerang Regency, which has been notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.03-0166609 dated 26 April 2018, and (iii) registered in the Company Registry No. AHU-0059484.AH.01.11.TAHUN 2018 dated 26 April 2018;
- c. Deed of GMS Resolution of GTRI No. 9 dated 20 September 2018, made before Rizki Meuthia, S.H., M.Kn., Notary in Jakarta which has been (i) notified to the MOLHR as evidenced by the Notification on the Change of the Company's Data from the MOLHR No. AHU-01.03-0246432 dated 26 September 2018, and (ii) registered in the Company Registry No. AHU-0126969.AH.01.11.TAHUN 2019 dated 26 September 2018;
- d. Deed of Circular Resolution in Lieu of an Extraordinary GMS of GTRI No. 8 dated 27 March 2019, made before Rizki Meuthia, S.H., M.Kn., Notary in Tangerang Regency, which has been (i) approved by the MOLHR by virtue of MOLHR Decree No. AHU-0017631.AH.01.02.Tahun 2019 dated 30 March 2019, and (ii) registered in the Company Registry No. AHU-0053375.AH.01.11.TAHUN 2019 dated 20 March 2019, and (iii)

APPENDIX XIV(D) – LEGAL OPINION ON OWNERSHIP OF TITLE TO THE SECURITIES OR ASSETS AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTER-PARTIES AND OTHER RELEVANT LEGAL MATTERS UNDER THE RELEVANT LAWS OF INDONESIA (cont'd)

announced in the BNRI No. 8 and supplement of the BNRI No. 4133 dated 28 January 2020;

- e. Shareholders Registry of GTRI dated 28 June 2024;
- f. Shares Certificates No. 1 dated 10 July 2024 registered under the name of IAA for its ownership of shares in GTRI; and
- g. Shares Certificates No. 2 dated 10 July 2024 registered under the name of PT Fersindo Nusaperkasa for its ownership of shares in GTRI.



Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at December 31, 2021 and 2020 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2021 and 2020;
- the statements of total comprehensive income for the years ended December 31, 2021 and 2020;
- the statements of changes in equity for the years ended December 31, 2021 and 2020;
- the statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Page 2

Material Uncertainty regarding Going Concern

We draw attention to Note 1.2 in the financial statements, which indicates that the Company has incurred losses from its operations amounting to P6,435,154,777 for the year ended December 31, 2021 (2020 - P6,760,340,466), which result to accumulated deficit and a capital deficiency of P31,998,064,185 and P31,308,856,713 as at December 31, 2021 (2020 - P25,562,909,408 and P25,080,551,171), respectively. The Company continues to be adversely affected by the COVID-19 pandemic, not only to the local travel industry, but on the international landscape as well. These conditions indicate that a material uncertainty exist that may cast significant doubt on the Company's ability to continue as a going concern. Management's plans for future actions are disclosed in Note 1.2. We have performed sufficient and appropriate audit procedures to evaluate management's plans for such future actions to sustain its operations. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Page 3

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.



Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Page 4

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

A handwritten signature in black ink, appearing to read 'Jan Michael L. Reyes'.

Jan Michael L. Reyes
Partner

CPA Cert. No. 104972

PTR No. 0011393, issued on January 6, 2022, Makati City
SEC A.N. (individual) as general auditors 104972-SEC, Category A;
valid to audit 2020 to 2024 financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements

TIN 215-692-059

BIR A.N. 08-000745-142-2022; issued on January 25, 2022; effective until January 24, 2025
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
May 2, 2022



Isla Lipana & Co.

Statement Required by Rule 68
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Philippines AirAsia Inc. doing business under the name and style of AirAsia
Bldg. 7233 Diosdado Macapagal International Airport
Civil Aviation Complex
Clark Freeport Zone Angeles City, Pampanga

We have audited the financial statements of Philippines AirAsia Inc. doing business under the name and style of AirAsia (the "Company") as at and for the year ended December 31, 2021, on which we have rendered the attached report dated May 2, 2022.

In compliance with SRC Rule 68 and based on the certification received from the Company's corporate secretary and the results of our work done as at December 31, 2021, the Company has two (2) shareholders owning one hundred (100) or more shares each.

Isla Lipana & Co.

Jan Michael L. Reyes
Partner

CPA Cert. No. 104972

PTR No. 0011393, issued on January 6, 2022, Makati City

SEC A.N. (individual) as general auditors 104972-SEC, Category A;

valid to audit 2020 to 2024 financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A;

valid to audit 2020 to 2024 financial statements

TIN 215-692-059

BIR A.N. 08-000745-142-2022; issued on January 25, 2022; effective until January 24, 2025

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
May 2, 2022

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APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Financial Position
As at December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
ASSETS			
Current assets			
Cash	2	41,855,266	40,393,979
Trade and other receivables, net	3	149,892,446	140,536,942
Expendable parts, materials and supplies	4	327,503,329	372,103,457
Prepayments and other current assets	5	336,319,967	540,985,334
Due from a related party	18	1,798,389,785	365,545,738
Total current assets		2,653,960,793	1,459,565,450
Non-current assets			
Property and equipment, net	6	8,149,410,514	10,519,769,203
Deposits	7	785,599,196	749,192,187
Total non-current assets		8,935,009,710	11,268,961,390
Total assets		11,588,970,503	12,728,526,840
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables and other current liabilities	9	14,302,912,397	11,680,992,315
Unearned revenue	23.16	1,709,973,301	1,751,429,101
Loans payable	8	974,229,767	916,994,530
Provisions for claims	9	330,106,424	330,106,424
Lease liabilities, current portion	16	6,432,937,373	4,531,976,112
Provision for aircraft redelivery cost, current portion	16	41,245,789	23,371,684
Derivative financial liabilities, current portion	10	-	107,360,944
Due to related parties	18	10,476,727,516	10,134,309,886
Total current liabilities		34,268,132,567	29,476,540,996
Non-current liabilities			
Lease liabilities, net of current portion	16	8,180,093,127	7,784,377,161
Provision for aircraft redelivery costs, net of current portion	16	109,198,848	110,147,338
Retirement benefit obligation	17	340,402,674	438,012,516
Total non-current liabilities		8,629,694,649	8,332,537,015
Total liabilities		42,897,827,216	37,809,078,011
Capital deficiency			
Share capital	11	595,000,000	595,000,000
Deficit		(31,998,064,185)	(25,562,909,408)
Cash flow hedge reserves	10	-	(80,417,970)
Remeasurement gain on retirement benefit obligation	17	94,207,472	(32,223,793)
Total capital deficiency		(31,308,856,713)	(25,080,551,171)
Total liabilities and capital deficiency		11,588,970,503	12,728,526,840

(The notes on pages 1 to 55 are integral part of these financial statements.)

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Total Comprehensive Income
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
Revenue			
Passenger		1,691,564,362	5,298,877,051
Cargo		186,975,260	254,688,289
Other revenues	12	229,488,340	813,357,122
		2,108,027,962	6,366,922,462
Cost of services	13	(6,002,494,995)	(11,571,814,324)
Gross loss		(3,894,467,033)	(5,204,891,862)
Operating expenses	14	(954,511,036)	(1,381,220,937)
Other income (expenses), net			
Fair value gain (loss) on derivatives	10	26,942,974	(141,651,741)
Other income (expenses), net	15	(998,549,791)	554,062,284
Finance costs	15	(614,569,891)	(586,638,210)
Loss before income tax		(6,435,154,777)	(6,760,340,466)
Provision for income tax	19	-	-
Loss for the year		(6,435,154,777)	(6,760,340,466)
Other comprehensive income for the year			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement gain (loss) on retirement benefit obligation	17	126,431,265	(70,352,319)
<i>Item that can be reclassified subsequently to profit or loss</i>			
Net fair value changes on cash flow hedge reserves	10	80,417,970	(150,301,948)
Total comprehensive loss for the year		(6,228,305,542)	(6,980,994,733)

(The notes on pages 1 to 55 are integral part of these financial statements.)

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
 (A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
 (All amounts in Philippine Peso)

	Share capital (Note 11)	Deficit	Remeasurement gain (loss) on retirement benefit obligation (Note 17)	Net fair value changes on cash flow hedges (Note 10 and 18)	Total capital deficiency
Balances as of January 1, 2020	595,000,000	(18,802,568,942)	38,128,526	69,883,978	(18,099,556,438)
Comprehensive income for the year					
Loss for the year	-	(6,760,340,466)	-	-	(6,760,340,466)
Other comprehensive loss for the year	-	-	(70,352,319)	(150,301,948)	(220,654,267)
Total comprehensive loss for the year	-	(6,760,340,466)	(70,352,319)	(150,301,948)	(6,980,994,733)
Balances as of December 31, 2020	595,000,000	(25,562,909,408)	(32,223,793)	(80,417,970)	(25,080,551,171)
Comprehensive income for the year					
Loss for the year	-	(6,435,154,777)	-	-	(6,435,154,777)
Other comprehensive income for the year	-	-	126,431,265	80,417,970	206,849,235
Total comprehensive loss for the year	-	(6,435,154,777)	126,431,265	80,417,970	(6,228,305,542)
Balances as at December 31, 2021	595,000,000	(31,998,064,185)	94,207,472	-	(31,308,856,713)

(The notes on pages 1 to 55 are integral part of these financial statements.)

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Philippines AirAsia Inc. doing business under the name and style of AirAsia
(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
Cash flows from operating activities			
Loss before income tax		(6,435,154,777)	(6,760,340,466)
Adjustments for:			
Amortization of right-of-use (ROU) assets	6	2,737,779,580	3,305,898,953
Depreciation expense	6	196,530,920	144,947,728
Impairment loss on ROU assets	15	-	963,100,000
Interest expense	15	546,934,074	561,167,909
Provision for (reversal of) impairment of receivables	3	53,738,898	(31,747,948)
Interest income	2,15	(108,233)	(497,151)
Unrealized foreign currency exchange loss (gain)	22	1,475,401,805	(807,375,132)
Fair value (gain) loss on derivatives	10	(26,942,974)	141,651,741
Loss on retirement of PPE	6	852,287	1,310,571
Operating loss before changes in assets and liabilities		(1,450,968,420)	(2,481,883,795)
(Increase) decrease in:			
Trade and other receivables		(5,752,147)	883,708,671
Expendable parts, materials and supplies		44,600,128	(25,442,074)
Prepayments and other current assets		204,685,367	274,780,617
Due from related parties		(1,432,844,047)	(365,545,738)
Increase (decrease) in:			
Trade payables and other current liabilities		3,036,677,630	4,976,513,655
Unearned revenue		(41,455,800)	(2,444,271,843)
Provision for aircraft redelivery costs		-	(5,787,423)
Retirement benefit obligation	17	28,821,423	73,663,314
Net cash from operations		383,744,134	885,735,384
Interest received		108,233	497,151
Net cash provided by operating activities		383,852,367	886,232,535
Cash flows from investing activities			
(Increase) decrease in deposits	7	(36,407,009)	92,853,176
Acquisitions of property and equipment	6	(6,631,777)	(55,700,124)
Net cash flow (used in) provided by investing activities		(43,038,786)	37,153,052
Cash flow from financing activity			
Payment of lease liabilities	16	(349,229,409)	(1,397,700,792)
Payments of loans payable	8	-	(81,119,166)
Interest paid	8	(36,036,083)	(33,542,375)
Net cash used in financing activities		(385,265,492)	(1,512,362,333)
Net decrease in cash		(44,451,911)	(588,976,746)
Cash at the beginning of the year		40,393,979	698,935,577
Effect of changes in foreign currency exchange rates		45,913,198	(69,564,852)
Cash at the end of the year	2	41,855,266	40,393,979

(The notes on pages 1 to 55 are integral part of these financial statements.)

Philippines AirAsia Inc. doing business under the name and style of AirAsia

(A wholly owned subsidiary of AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia)

Notes to the Financial Statements

As at and for the years ended December 31, 2021 and 2020

(All amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - Corporate information

1.1 General information

Philippines AirAsia Inc. doing business under the name and style of AirAsia (the Company or PAAI) was incorporated in the Philippines on March 25, 1997. The Company started commercial operations on January 1, 2003 and is presently engaged in the general business of airline, engaged in the transportation of passengers, merchandise, freight and mail.

On July 22, 2002, the Congress of the Philippines enacted Republic Act (R.A.) No. 9183 (the Act) granting the Company a franchise to establish, operate and maintain domestic and international air transport services. The franchise shall be for a period of 25 years.

In 2017, the Civil Aeronautics Board (CAB) granted the renewal of the Company's Certificate of Public Convenience and Necessity (CPCN) to operate scheduled air transportation services valid from July 28, 2017 until July 27, 2022, and from June 20, 2017 until June 19, 2022 for domestic and international services, respectively.

On December 19, 2017, AirAsia, Inc. doing business under the name and style of Pilipinas AirAsia (AAI) entered a Deed of Absolute Sale of Shares to acquire 51.0% ownership interest in the Company from a major shareholder. The sale was executed after securing the approvals from the Congress and President of the Republic of the Philippines.

As at December 31, 2020 and 2019, the Company is 98.8% owned by AAI. AAI is a company incorporated and domiciled in the Philippines and is 60% owned by Filipino shareholders and 40% owned by Malaysian shareholders.

The Company's registered office address is Building No. 7233 Diosdado Macapagal International Airport, Civil Aviation Complex Clark Freeport Zone Angeles City, Pampanga, Philippines, while the principal place of business is located at Level 2, Mezzanine Area, Ninoy Aquino International Airport (NAIA) Terminal 3, Pasay City, Philippines.

1.2 Status of operations and impact of COVID-19

The Company continues to be affected by the adverse impact of COVID-19 pandemic, not only on the local travel industry, but on the international landscape as well. For the year ended December 31, 2021, the Company incurred loss of P6.44 billion (2020 - P6.76 billion) which resulted to increased deficit and capital deficiency amounting to P32 billion and P31.31 billion (2020 - P25.56 billion and P25.08 billion), respectively. In addition, the Company has a negative working capital (current assets less current liabilities) of P31.61 billion as at December 31, 2021 (2020 - P28.02 billion).

In 2020, significant decline in demand for air travel was brought by strict quarantine mandates and various border restrictions worldwide. As such, the Company has implemented changes in this operations and business strategies in order to maximize revenues and manage direct and operating costs.

During 2021, these efforts are on-going as the Company continues to seek support both from its vendors and business partners to enable to Company to meet its cash flow requirements. The Company's recovery plan aims to gradually restore pre-COVID capacities or frequencies, reduce operational costs, open new destinations and offer new products that is anchored on digital transformation.

The Company is currently undertaking the following measures to mitigate the effect of the disruption to its operations:

a. Commercial operations resumption

2021 started with slower demand recovery and flight resumption due to new strain of COVID 19 virus and varying domestic travel policies and RT-PCR requirements across the country.

In May 2021, the government began to ease travel restrictions in Manila and nearby provinces as COVID cases were in a downward trend. Eventually, leisure travels were allowed which boosted sales with the reopening of Boracay and Panglao destinations. However, in August 2021, the unanticipated emergence of the new COVID 19 variants resulted in the resurgence of the COVID cases, thereby, resulting to strict lockdown in Metro Manila and nearby provinces. In September 2021, travel demand slowly recovered as the Company transitioned to more relaxed quarantine guidelines and leisure travel was no longer prohibited which allowed the Company to increase frequency in most of the routes particularly on leisure routes. During the peak season, extra flights were added to the leisure and major routes. The trend continued in Q4 2021 due to the development in the vaccine rollout, decreasing trend of new COVID cases, continuous relaxation of travel restrictions and protocols, and government support on tourism.

Scheduled international flights were also introduced in December to serve the Overseas Filipino Worker (OFW) demand from Hong Kong and Singapore. Increased monthly average revenues beginning December 2021 are attributable to higher aircraft utilization and a load factor.

b. Generate revenue from charter flights and grow other revenue streams

To alleviate the impact of the pandemic on the financials, the Company focused on generating revenue from the charter flights. Revenues earned from charter flights significantly came from the high-margin China flights, repatriation flights from/to India and Sri Lanka, sweeper flights for locally stranded individuals supporting the government agencies and several repatriation flights to Myanmar, Malaysia, Vietnam and Indonesia.

Various programs were implemented to ensure revenue maximization of the baggage, seat selection, fees, food, insurance and other ancillary products and services which generated higher yield and take-up rate. Meanwhile, the main focus on cargo was to increase the number of accredited partners (agents) and maximize yield by offering new products and applying customized approach to different cargo demands.

c. Various cost containment measures to help preserve cash

Aggressive cost containment measures were initiated to sustain the business and is continuously monitored. While direct costs behave in proportion with respect to the number of flights, fixed costs remained to be on strict monitoring and scrutiny to further reduce at a level that is reasonable to operate its fleet. The following cost efficiency initiatives were deployed to manage fixed costs and stretch working capital support:

- Deferral of payments on rental, lease, airport charges and vendor payments;
- Renegotiation with vendors in view of rates and credit terms;
- Salary and employee benefit readjustments;
- Headcount rationalization;
- Freeze hiring, training, travel and overtime work; and
- Postponement of capital and training expenditure;

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

On January 1, 2021, the Company also offered voluntary separation program which resulted in the retrenchment of 357 employees in addition to the 267 employees that were retrenched in 2020. (Note 17). Further, as the Company continuously reevaluates the efficiency of its organizational structure and the right resource size to achieve further savings in human resource cost, the Company continues to downsize its manpower complement.

d. Working capital management

The Company, with the assistance of AirAsia Group Berhad (AAGB), managed to seek deferrals for payment and restructuring of several aircraft operating leases with lessors (Note 16). Payments are to be handled in gradual, progressive basis as the Company is moving towards full restoration of capacity through resumption of its operations.

e. Funding and financial support

Certain shareholders of AAI will continue to provide the necessary financial support to enable the Company to meet its financial obligations when they fall due and carry out its business operations. Further, certain shareholders continue to affirm that it will exercise restraint from calling on the net liabilities due from the Company at least for the next twelve (12) months from December 31, 2021; the forbearance will however change once the Company's financial position and cash flows has improved earlier than the lapse of the undertaking. Further, this certain shareholder continues to extend its guarantee to the Company for its outstanding loans with third party banks. This restraint will however change once the Company's financial position has improved (Notes 18 and 23).

In November 2021, the Company was able to renegotiate the maturity of its BDO loan to June 2022. Outstanding loan of the Company as at renegotiation date amounted to \$19.09 million (approximately P955.86 million) (Note 8).

As it slowly recovers from the adverse impacts of COVID-19 into the air travel industry, the Company continues to fully adopt AirAsia's business model, including the Group's planned changes in strategies and as well as the introduction of new products and services of the brand. This is expected to drive loads through the lowest fare strategy, wider destination reaches and attracting more people to fly from and to the Philippines. Consequently, the Company continues to strengthen its local market share by penetrating further into key domestic trunks and leisure destinations, while also quickly tapping into the Southeast Asian market, China and North Asia. The effective implementation of the new business model is expected to bring favorable results to the Company's business operations in the long term.

Based on the foregoing, the Company's financial statements were prepared on a going concern basis.

1.3 Approval of the financial statements

These financial statements have been approved and authorized for issuance by the Company's Board of Directors (BOD) on May 2, 2022.

Note 2 - Cash

Cash as at December 31 consists of:

	2021	2020
Cash on hand	1,716,000	1,746,000
Cash in bank	40,139,266	38,647,979
	41,855,266	40,393,979

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks for the year ended December 31, 2021 amounted to P108,233 (2020 - P497,151) (Note 15).

Note 3 - Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

	Note	2021	2020
Trade receivables			
Third parties		1,322,129,410	1,305,401,055
Related parties	18	93,472,975	55,342,547
		1,415,602,385	1,360,743,602
Less: Allowance for impairment loss		1,293,307,245	1,239,568,347
Trade receivables, net		122,295,140	121,175,255
Other receivables		27,597,306	19,361,687
		149,892,446	140,536,942

Trade receivables are unsecured and non-interest bearing with credit terms ranging from 30 to 60 days.

Other receivables include advances to employees which are noninterest-bearing subject to liquidation upon completion of the business transaction.

Movements in allowance for impairment loss on trade receivables with third parties for the years ended December 31 are as follows:

	Notes	2021	2020
Beginning of the year		1,239,568,347	1,279,163,215
Provision for impairment loss	14	53,738,898	-
Reversal of impairment loss	14	-	(31,747,948)
Write-off of receivables		-	(7,846,920)
End of the year		1,293,307,245	1,239,568,347

Reversal of impairment loss for the years ended December 31, 2020 pertains to receivable balance previously provided with allowance that were subsequently collected.

Significant estimation of allowance for impairment loss on trade receivables

The Company uses a provision matrix to calculate expected credit loss (ECL) for trade receivables that are not credit impaired. The provision rates are based on days past due for groupings of various customer types that have similar loss patterns. The provision matrix is initially based on the Company's historically observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (e.g., PHP/USD average foreign exchange rate) is expected to increase over the next year which can lead to an increased number of defaults due to the decrease in PHP's purchasing power, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasted economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Note 4 - Expendable parts, materials and supplies

Expendable parts, materials, and supplies as at December 31 consist of:

	2021	2020
At cost		
Expendable parts	322,267,102	343,466,736
Inflight inventories	5,236,227	28,636,721
	<u>327,503,329</u>	<u>372,103,457</u>

For the year ended December 31, 2021, the cost of inventories charged to profit or loss as part of repairs and maintenance expense amounted to P56.6 million (2020 - P78.6 million) (Note 13).

Significant judgment on the determination of net realizable value of expendable parts, materials and supplies

The Company's estimates of the net realizable value of expendable parts, materials and supplies are based on the most reliable evidence (e.g., damage, physical deterioration, technological obsolescence, changes in commodity prices), available at the time the estimates are made of the amount that these assets are expected to be realized.

The net realizable value of expendable parts, materials and supplies is reviewed on a monthly basis to reflect the reasonable valuation of these assets. Expendable parts, materials and supplies identified to be obsolete and unusable is written-off and charged as expense for the period. The carrying value of the expendable parts, materials and supplies at reporting date and the amount and timing of recorded expenses for any period could differ based on the actual experience and changes in judgments or estimates made.

Management has assessed that the net realizable value of inventories is higher than their cost, hence the Company did not recognize any provision for inventory obsolescence for the years ended December 31, 2021 and 2020.

Note 5 - Prepayments and other current assets

Prepayments and other current assets as at December 31 consist of:

	2021	2020
Prepaid maintenance and fuel	251,316,677	408,519,388
Prepaid taxes	78,323,221	96,727,004
Prepaid insurance	1,657,905	-
Input value-added tax (VAT)	-	30,716,778
Others	5,022,164	5,022,164
	<u>336,319,967</u>	<u>540,985,334</u>

Prepaid maintenance and fuel and prepaid insurance will be recognized as expense either with the passage of time or through use or consumption.

Prepaid taxes mainly include overpayments of income taxes and creditable withholding taxes withheld by third parties arising from sale of services which are applied against future income tax payable.

Others include advanced payment for reservation fee for office spaces within Ninoy Aquino International Airport (NAIA) Terminal 3, reservation fees for hotel accommodations, advanced payments for 12-month rent and regulatory fees.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Note 6 - Property and equipment, net

Details of property and equipment, net are as follows:

	Leasehold improvements	Motor vehicles	Office furniture and equipment	Aircraft support machinery and equipment	Right-of-use assets (Note 16)	Total
At January 1, 2020						
Cost	108,669,918	87,684,726	99,543,590	819,624,806	17,717,171,866	18,832,694,906
Accumulated depreciation	(16,139,963)	(48,524,414)	(51,666,371)	(283,345,346)	(4,285,299,596)	(4,684,977,690)
Net carrying value	92,529,955	39,160,312	47,875,219	536,279,460	13,431,872,270	14,147,717,216
For the year ended December 31, 2020						
Opening net carrying value	92,529,955	39,160,312	47,875,219	536,279,460	13,431,872,270	14,147,717,216
Additions	1,806,853	-	8,884,744	49,239,961	727,377,681	787,309,239
Depreciation	(24,612,766)	(16,735,436)	(14,932,355)	(88,667,171)	(3,305,898,953)	(3,450,846,681)
Retirement/disposal						
Cost	(946,495)	-	(118,851)	(245,225)	(338,433,692)	(339,744,263)
Accumulated depreciation	-	-	-	-	338,433,692	338,433,692
Impairment	-	-	-	-	(963,100,000)	(963,100,000)
Closing net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
At December 31, 2020						
Cost	109,530,276	87,684,726	108,309,483	868,619,542	18,106,115,855	19,280,259,882
Accumulated depreciation and impairment	(40,752,729)	(65,259,850)	(66,600,726)	(372,012,517)	(8,215,864,857)	(8,760,490,679)
Net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
For the year ended December 31, 2021						
Opening net carrying value	68,777,547	22,424,876	41,708,757	496,607,025	9,890,250,998	10,519,769,203
Additions	348,214	-	340,357	3,202,086	584,819,943	588,710,600
Depreciation	(25,745,973)	(12,527,176)	(17,300,793)	(140,956,978)	(2,737,779,580)	(2,934,310,500)
Retirement/disposal						
Cost	-	(22,515,137)	-	(1,860,943)	(136,204,127)	(160,580,207)
Accumulated depreciation	-	21,373,116	-	1,593,455	112,854,847	135,821,418
Closing net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514
At December 31, 2021						
Cost	109,878,490	65,169,589	108,649,840	869,960,685	18,554,731,671	19,708,390,275
Accumulated depreciation and impairment	(66,498,702)	(56,413,910)	(83,901,519)	(511,376,040)	(10,840,789,590)	(11,558,979,761)
Net carrying value	43,379,788	8,755,679	24,748,321	358,584,645	7,713,942,081	8,149,410,514

Acquisitions of property and equipment as shown in the statements of cash flows for the year ended December 31 were determined as follows:

	Note	2021	2020
Beginning unpaid portion of property and equipment		124,003,565	119,772,131
Acquisitions of property and equipment		3,890,657	59,931,558
Unpaid portion of property and equipment	9	(121,262,445)	(124,003,565)
Paid acquisitions of property and equipment per statements of cash flows		6,631,777	55,700,124

Depreciation and amortization charged to profit or loss for the years ended December 31 are as follows:

	Notes	2021	2020
Cost of services	13	2,855,387,278	3,347,867,567
Operating expenses	14	78,923,222	102,979,114
		2,934,310,500	3,450,846,681

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Right-of-use (ROU) assets as at December 31 consist of:

	Aircraft	Engine	Office	Total
At January 1, 2020				
Cost	17,515,141,190	65,826,549	136,204,127	17,717,171,866
Accumulated depreciation	(4,207,228,361)	(35,264,224)	(42,807,011)	(4,285,299,596)
Net carrying value	13,307,912,829	30,562,325	93,397,116	13,431,872,270
For the year ended December 31, 2020				
Opening net carrying value	13,307,912,829	30,562,325	93,397,116	13,431,872,270
Additions	727,377,681	-	-	727,377,681
Depreciation	(3,230,989,017)	(28,211,379)	(46,698,557)	(3,305,898,953)
Retirement/disposal				
Cost	(338,433,692)	-	-	(338,433,692)
Accumulated depreciation	338,433,692	-	-	338,433,692
Impairment	(963,100,000)	-	-	(963,100,000)
Closing net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
At December 31, 2020				
Cost	17,904,085,179	65,826,549	136,204,127	18,106,115,855
Accumulated depreciation	(8,062,883,686)	(63,475,603)	(89,505,568)	(8,215,864,857)
Net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
For the year ended December 31, 2021				
Opening net carrying value	9,841,201,493	2,350,946	46,698,559	9,890,250,998
Additions	584,819,943	-	-	584,819,943
Depreciation	(2,712,079,355)	(2,350,946)	(23,349,279)	(2,737,779,580)
Retirement/disposal				
Cost	-	-	(136,204,127)	(136,204,127)
Accumulated depreciation	-	-	112,854,847	112,854,847
Impairment	-	-	-	-
Closing net carrying value	7,713,942,081	-	-	7,713,942,081
At December 31, 2021				
Cost	18,488,905,122	65,826,549	-	18,554,731,671
Accumulated depreciation and impairment	(10,774,963,041)	(65,826,549)	-	(10,840,789,590)
Net carrying value	7,713,942,081	-	-	7,713,942,081

Collateral equipment

A certain engine under aircraft support machinery and equipment was used as collateral to secure a loan renegotiation obtained by its parent company in 2020. The net carrying amount of such property as at December 31, 2021, included as part of the ROU assets amounted to P102,533,290 (2020 - P149,325,290).

Impairment of ROU assets

As discussed in Note 1, the Company is continuously impacted by the adverse effects of the COVID-19 pandemic, as such, management has regularly undertaken impairment assessment review.

In 2021 and 2020, management has undertaken an impairment review of the Company's cash generating units (CGUs), which primarily consist of Aircraft ROU assets. In accordance with PAS 36, Impairment of Assets. In determining the provision, the recoverable amount of the Company's ROU assets was determined based on value-in-use (VIU) calculations. Cash flow projections used in the value-in-use calculations were based on forecasted financials results approved by management covering a remaining lease term of the entire aircraft fleet. The financial results were also in consideration of the current COVID-19 recovery plans, progress on the roll-out of the vaccination program in the country, as well as lifting of the quarantine mandates that would allow air travel on targeted locations.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Using the detailed projections of Company's expected results from its current fleet for remaining lease term, and applying a terminal value thereafter, the Company calculated a recoverable amount as at December 31, 2021 amounting to P9.4 billion (2020 - P9.9 billion). Consequently, the Company did not recognize provision for impairment of its Aircraft ROU assets for the year ended December 31, 2021. In 2020, P963.1 million was recognized, which represented the difference between the recoverable amount and the carrying value of the Aircraft ROU assets as at reporting date.

The assumptions used as at December 31 are as follows:

	2021	2020
Discount rate	9%	8%
Terminal growth rate	0%	0%

Discount rate used is based on weighted average cost of capital of comparable companies.

Significant estimation on impairment of ROU assets

The Company assesses at each reporting date whether there is an indication that right-of-use assets may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. The recoverable amount of right-of-use assets is the greater of the asset's fair value less costs to sell and value-in-use. Determination of impairment of right-of-use assets requires an estimation of the value-in-use of the cash-generating unit (CGU) to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Company uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. Other assumptions used in projecting the future cash flows include passenger load factor, passenger yield, aircraft utilization and fuel costs, among others.

Changes in these judgments and assessments could have a significant effect on the carrying value of right of use assets and the amount and timing of recorded provision for any period.

The Company recognized provision for right of use assets as presented above. The Company further believes that there are no other events or changes in circumstances that indicate the carrying amount of its remaining right of use assets may not be recoverable at reporting date.

The Company has determined that right-of-use assets are recoverable based on value in use.

For the year ended December 31, 2021, while the resulting value-in-use exceeds the carrying value of the ROU assets, there are no reversal of impairment charges recognized primarily because the changes in the values were determined by management to be attributable to sensitivity of assumptions and impairment indicators continue to exist.

While it is believed that the Company's assumptions are reasonable and appropriate, significant changes in assumptions may materially affect the Company's impairment provision and right of use asset. The sensitivity of the resulting impairment provision is mainly driven by any changes in pre-tax discount rate applied, while holding all assumptions constant.

If the pre-tax discount rate applied in the cash flow projections of this CGU had been +1% (-1%) than management's estimates, the Company would have recognized decrease in value in use of P381 million (increase in value in use of P406 million) for the year ended December 31, 2021.

When calculating the sensitivity of the impairment provision, the same method (value-in-use) has been applied as when calculating the impairment provision recognized in profit or loss.

Significant judgment on recoverability of property and equipment and ROU assets

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

As of December 31, 2021 and 2020, management believes that the carrying amount of the Company's property and equipment and ROU assets are recoverable.

Note 7 - Deposits

Deposits as at December 31 consist of:

	Note	2021	2020
Aircraft and engine lease deposit	16	653,375,961	614,910,558
Refundable deposits		88,781,983	95,182,741
Spares and maintenance deposit		24,986,595	20,044,231
Hanger and office rental	16	18,454,657	18,454,657
Others		-	600,000
		785,599,196	749,192,187

Refundable deposits pertain to bonds paid to different Philippine airport authorities for each of the aircraft landing and take-off costs. These amounts will be refunded at the end of the related contracts.

Spares and maintenance deposit mainly relate to deposits for future fixed asset acquisitions.

Note 8 - Loans payable

On September 8, 2017, the Company availed of a loan from BDO Unibank, Inc. (BDO) to be used for working capital requirements amounting to \$35.0 million (P1.78 billion). Fifty percent (50%) of the loan is payable in 11 equal quarterly installments starting December 2017 and the remaining fifty percent (50%) is payable in lump sum at the end of the contract term on September 8, 2020. The loan is subject to 3-month London Interbank Offered Rate (LIBOR) plus margin of 2.5%.

The loan with BDO provides for restrictions with respect to, among others, making distribution on its share capital; maintenance of financial ratios; making any material change in the character of its business or engaging in any business operation or activity other than those for which it is presently authorized; decreasing the current ownership interest of AAI; incurring any secured indebtedness; and, extending loans, advances to any corporation, directors, officers and stockholders other than advances in the ordinary course of business.

This BDO credit facility is secured by corporate guarantee of AAGB, a shareholder of AAI, and the continuing suretyship of AAI (Note 18).

In 2018, the Company did not meet the required financial ratios. Thus, the portion of loans originally payable in 2020 totaling \$20.68 million (P1.09 billion) was presented as current liabilities since BDO has the right to call the loans as at December 31, 2018, and anytime thereafter. The Company was not declared in default by BDO. In 2019, the whole amount of loans payable, being originally due in September 2020, are classified as current.

In 2020, the Company was able to renegotiate the outstanding loan amounting extending the maturity date to November 19, 2021. The renegotiated loan is subject to 3-month LIBOR plus margin of 4% per annum. The renegotiated loan is short-term and is not subject to any loan covenant.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

In November 2021, the Company was able to further renegotiate the maturity of its BDO loan to June 2022. Outstanding loan of the Company as at renegotiation date amounted to \$19.1 million (approximately P957.75 million) (Note 8). Movements of loans payable as at December 31 are as follows:

	2021	2020
Balance at the beginning of year	916,994,530	1,049,790,527
Settlements	-	(81,119,166)
Foreign exchange effects	57,235,237	(51,676,831)
Balance at the end of year	974,229,767	916,994,530

Movements in accrued interest on loans payable at December 31 are as follows:

	2021	2020
Balance at the beginning of year	780,581	4,259,871
Settlements	(36,036,083)	(33,542,375)
Interest expense	37,152,555	34,322,956
Foreign exchange effects	(780,581)	(4,259,871)
Balance at the end of year	1,116,472	780,581

Accrued interest on loans payable as at December 31, 2021 and 2020 is presented as part of trade payables and other current liabilities (Note 9).

Note 9 - Trade payables and other current liabilities; provisions

Trade and other current liabilities

Trade payables and other current liabilities at December 31 consist of:

	Notes	2021	2020
Trade payables			
Related parties	18	5,973,681,088	5,660,443,360
Third parties		5,661,051,404	3,309,958,535
		11,634,732,492	8,970,401,895
Accrued expenses			
Repairs and maintenance		790,822,056	799,407,460
Salaries and employee benefits		147,548,115	213,682,308
Landing, takeoff and parking		180,898,715	127,812,561
Accrued interest on lease deferrals	16	37,563,189	20,706,775
Airport ground handling		12,172,366	22,120,251
Accrued interest on loans payable	8	1,116,472	780,581
Others		24,416,221	14,561,181
		1,194,537,134	1,199,071,117
Refunds		773,403,535	839,847,415
Deposits from travel agents		228,045,825	405,854,297
Payable to government agencies		300,059,685	140,859,376
Output VAT payable		39,215,051	-
Unpaid capital expenditures		121,262,445	124,003,565
Other claims		11,656,230	954,650
Trade and other current liabilities		14,302,912,397	11,680,992,315
Provision for claims		330,106,424	330,106,424

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Trade payables are unsecured, unguaranteed and non-interest bearing. Payable to third parties have credit terms ranging from 30 to 60 days while payable to related parties are due and demandable.

Deposits from travel agents pertains to cash bond of travel agents. This serves as the travel agents' credit limit and represents the maximum value of tickets that the travel agents are allowed to sell.

Payable to government agencies pertains mostly to output VAT and withholding taxes on payroll which are noninterest-bearing and are normally settled the following month.

Refunds mainly consist of scheduled flights that were eventually cancelled by the Company, following some circumstances outside the control of the passenger. Passengers affected by eventual cancellations are provided an option to rebook or refund flight booking payments. Refunds account are those cancelled flights where passengers opted to refund cash via their choice of payment platform. Rebooked flights are recorded as part of "Unearned Revenues" in the statement of financial position (Note 23.16).

Provisions

In the normal course of business, the Company has provisions, including those that may arise from suits and claims that are presently being contested. The Company has several pending cases which are individually not material that are likely to continue for some time. In the opinion of management, the ultimate disposition of these amounts will not have any significant effect on the financial position, results of operations and cash flows of the Company as at and for the years ended December 31, 2021 and 2020.

There are no amounts of provisions charged to profit or loss for the year ended December 31, 2021.

Significant estimate in determination of provisions

In the normal course of business, the Company is involved in various legal actions, claims and other contingencies incidental to its ordinary course of business. Provision is based on management's assessment and judgment, in consultation with counsels and advisors, of the likelihood that the settlement of these provisions will be realized considering possible outcomes under various circumstances. While it is believed that the Company's judgment and assessment are reasonable, actual results could differ from those judgment and assessment.

Accordingly, the recorded provision at the end of each reporting period and the amount and timing of recorded expense for any period could be materially affected by actual experience and changes in those judgment and assessment. A change in the estimated amount to be paid in settlement of these provisions would impact the Company's recorded expenses and current liabilities.

Note 10 - Derivative financial instruments

The table below sets out the fair value derivative financial instruments as at December 31:

	2021	2020
Designated hedges		
Current liabilities	-	(80,417,970)
Not designated hedges		
Current liabilities	-	(26,942,974)
Total derivative financial liabilities	-	(107,360,944)

In 2020 and 2019, AAGB entered into derivative contracts with third parties to hedge the jet fuel requirements of the AirAsia network. Subsequently in the same years, AAGB entered fuel derivative contracts with the Company for its related expected fuel consumption (Note 18). The Company's fuel derivatives consist primarily of fixed commodity swaps and options which are based on Brent crude oil price and crack between Brent oil price and jet fuel prices.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

The Company designated for hedge accounting the derivative contracts entered for the years ended December 31, 2021 and 2020.

The net changes in the fair value of all derivative instruments are as follows:

	2021	2020
Balances at beginning of year	(107,360,944)	184,592,744
Net changes in fair value during the year	67,922,422	(2,045,641,856)
Fair value of settled derivatives	18	1,753,688,168
Balances at end of year	-	(107,360,944)

Accumulated reserve on change in fair value of the outstanding derivatives designated for hedge accounting amounting as at December 31, 2020 amounted to P80.42 million (2021 - nil) is recognized as cash flow hedge reserve under other comprehensive income. For the year ended December 31, 2021 and 2020, no ineffectiveness was recognized in the statement of total comprehensive income.

A net gain of P26.94 million in 2021 (2020 - P141.65 million net loss) resulting from the movement in fair value of derivative instruments not designated for hedge accounting is recognized as fair value change in derivatives in the statement of comprehensive income.

In 2021, following the maturity of the hedge contract in April 2021, fair value loss on settled fuel derivative contracts amounting to P39.44 million charged to profit or loss is recognized as part of fuel costs (2020 - P1.75 billion loss) (Note 13).

In 2020, the Company, through AAGB, restructured Brent swaps originally maturing in April to June 2020. Upon renegotiation, the instruments have various maturity dates from December 2020 to April 2021 (Note 22). Upon maturity date in April 2021, the Company has not further participated in the Group's renegotiated hedges.

Following are the details of the restructured swaps:

	Original	Restructured
Notional quantity	35,107 barrels	37,448 barrels
Notional amount	\$2,071,310	\$2,412,260
Average hedged rate	\$59.00	\$64.42

As at December 31, 2021 and 2020, the fair value of the Company's fuel derivative contracts is determined using forward fuel price at balance sheet date, with the resulting value discounted to present value (Note 22).

Significant estimation of fair value of derivative instruments

The Company's derivative assets and liabilities are carried at fair value, the determination of which requires the use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., forward fuel prices and discount rates), the amount of changes in fair value would differ due to usage of different valuation methodology. Any change in fair value of these derivative instruments would affect directly the statements of comprehensive income.

Note 11 - Equity

The Company's share capital as at December 31, 2021 and 2020 consists of:

	Shares	Amount
Common shares at P1 par value per share		
Authorized	576,078,431	576,078,431
Issued and outstanding	171,078,431	171,078,431
Preferred shares at P1 par value per share		
Authorized, issued and outstanding	423,921,569	423,921,569

The Company's preferred shares are non-voting, participating, convertible at the option of the holder and redeemable at the option of the Company at the issue price or book value thereof, whichever is higher. Dividends are cumulative from the date of subscription thereof and is intended to be payable upon formal declaration by the BOD, and at which time, the related obligation on dividend is recognized in the accounts. As at December 31, 2021 and 2020, the BOD has yet to determine and approve the cumulative preferred dividend rate.

Under CAB Resolution No. 32, international scheduled air transport service provider is required to maintain a capital of not less than P800 million for the renewal of its CPCN. Existing grantees of CPCN are required to comply with the requirement within a period of one (1) year from the effectivity of the resolution in 2018 or upon renewal of its CPCN, whichever comes first. As at December 31, 2021 and 2020, total capital stock of the Company amounted to P595 million.

On September 13, 2019, CAB granted the Company's proposed changes in its authorized and outstanding capital stock, endorsement of the proposed transactions to the SEC and the subsequent confirmation of compliance with CAB Resolution No. 32 upon approval by the SEC of the proposed transactions.

On November 19, 2019, the Company's BOD and shareholders approved the conversion of the Company's outstanding liabilities to AAI amounting to P11.97 billion as full consideration for the issuance by the Company of 205 million common shares. This transaction would result to increase AAI's ownership in the Company to 800 million common shares at P1.00 par value per share and would enable the Company to conform to the capitalization requirement of CAB.

On January 31, 2020, the BOD and shareholders of Asiawide Airways Inc. (AWAI) approved the assignment of the Company's payable balance amounting to P753 million to AAI as the new creditor. In consideration for such assignment, AAI extinguished the debt of AWAI to AAI for the same amount.

On June 18, 2020, the Company filed its application to the SEC for the debt to equity restructuring.

On April 21, 2021, the BOD and shareholders of AWAI and AAI approved the revocation of the following:

- (i) the assignment by AWAI of its net receivable from PAA amounting to P753 million (AWAI Assigned Receivable) to AAI;
- (ii) the extinguishment of the AWAI's Debt to AAI to the extent of an amount equivalent to the AWAI Assigned Receivables; and
- (iii) the assignment of the AAI Additional Receivables Assignment to be applied towards the subscription payment for the Corporation's subscriptions to shares of PAA out of the PAA Capital Increase.

It was further approved by the AAI's BOD and shareholders that the subscription price for the 205,000,000 shares will be amended from P11.97 billion to P11.22 billion.

As at reporting date, the Company has yet to update its filings with the Philippine SEC to reflect this change. Meanwhile, the initial application is still pending review and approval by the SEC.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Note 12 - Other revenues

Other revenues for the years ended December 31 are as follows:

	2021	2020
Baggage fees	177,982,800	564,235,679
Inflight meals and services	14,139,524	45,790,833
Assigned fees	9,537,816	45,395,284
Rebooking, refunds and cancellation fees	1,174,928	127,162,688
Connection fees	83,515	16,148,183
Others	26,569,757	14,624,455
	229,488,340	813,357,122

Others pertain mainly to unlimited flight pass, expired credit shell, rental income on lease of a portion of the warehouse and other add-on fees, including insurance, airport service charges and handling fees.

Note 13 - Cost of services

Cost of services for the years ended December 31 are as follows:

	Notes	2021	2020
Depreciation and amortization	6, 16	2,855,387,278	3,347,867,567
Repairs and maintenance	4	833,059,452	1,939,123,505
Fuel cost	10	863,171,114	3,827,873,762
Salaries and employee benefits		692,757,037	1,376,482,999
Aircraft rental	16	371,428,318	-
Landing, take-off and parking		145,441,983	474,886,153
Airport ground handling		80,309,914	282,867,827
Bus rental	16	27,349,948	49,894,375
Custom duties		1,063,146	16,551,591
Others		132,526,805	256,266,545
		6,002,494,995	11,571,814,324

Landing, take-off and parking consists of amounts paid to airport authorities for landing and taking off at each particular airport. It also includes fees for parking at the terminal apron and other designated parking spaces.

Airport ground handling represents charges for services such as ground coordination, customs clearance application, passenger baggage handling, refueling, shuttle and other ground services.

Others consist mainly of aviation insurance, navigational fees charged for the establishment, operation and maintenance of air navigation system and facilities, and catering charges for in-flight crews.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Note 14 - Operating expenses

Operating expenses for the years ended December 31 are as follows:

	Notes	2021	2020
Marketing expenses			
Commission expenses		23,111,263	94,761,566
Promotion and advertising		20,385,605	110,543,233
		43,496,868	205,304,799
General and administrative expenses			
Utilities		237,385,178	209,591,594
Outside services	18	200,333,123	156,147,573
Salaries and employee benefits		160,304,072	220,481,772
Depreciation and amortization	6	78,923,222	102,979,114
Repairs and maintenance		73,247,154	149,747,081
Provision for (reversal of) impairment of receivables	3	53,738,898	(31,747,948)
Office rental	16	37,809,281	20,827,602
Retirement benefit expense	17	17,240,299	68,130,428
Brand license fee	18, 20	6,546,397	113,011,513
Training and accommodation		5,839,294	18,666,959
Taxes and licenses		5,167,791	11,678,509
Bank charges		1,609,542	3,710,744
Others		32,869,917	132,691,197
		911,014,168	1,175,916,138
		954,511,036	1,381,220,937

Note 15 – Finance costs and other expense (income), net

Finance costs for the years ended December 31 are as follows:

	Notes	2021	2020
Interest expenses on:			
Lease liability	16	463,763,955	500,466,766
Lease deferrals	16	37,563,189	20,706,775
Loan payable	8	37,152,555	34,322,956
Retirement benefit obligation	17	13,869,824	14,352,886
Provision for aircraft redelivery	16	8,454,375	5,671,412
Others		53,765,993	11,117,415
		614,569,891	586,638,210

Others include late payment fees charged by certain airport authorities.

Other (income) expenses, net for the years ended December 31 consists of:

	Notes	2021	2020
Foreign exchange loss (gain), net	22	1,456,771,240	(1,154,609,397)
Reversal of accruals		(286,070,472)	(214,808,890)
Gain on MRF claims		(127,753,031)	-
Interest income from bank deposits	2	(108,233)	(497,151)
Provision for impairment of right-of-use assets	6	-	963,100,000
Others		(44,289,713)	(147,246,846)
		998,549,791	(554,062,284)

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Gain on maintenance reserve fund (MRF) claims pertain to a cash reimbursements received from engine lessors related to the maintenance costs of engines incurred and paid by the Company in 2019. Final reconciliation and settlement was made by the lessor in October 2021.

In 2021 and 2020, management continuously reviewed the composition of its outstanding accruals and wrote off certain long outstanding balances which management assessed as no longer representing valid claims against the Company.

Others include collection from scrap sales, sublease of airport terminal space and reversal of deposits from inactive agents.

Note 16 - Leases (the Company as the lessee)

The Company's fleet as at December 31 consists of:

	Note	2021	2020
Airbus A320-200			
Third party lessors		17	17
Related party lessor	18	7	7
		24	24

Passenger aircraft

The Company is a lessee to various non-cancellable leases covering its passenger aircrafts, from both third party and related party principal lessors. The leases have terms ranging from twelve (12) months to ten (10) years with renewal options. The Company's existing fleet are with lease terms as provided below:

No. of aircrafts	Original lease term (including renewal options)		Restructured in 2021	New lease term (after lease restructuring)	
	From	To		From	To
2	2013	2022	No	2013	2022
1	2013	2023	Yes	2021	2029
1	2014	2021	No	2014	2021
1	2014	2025	No	2014	2025
1	2014	2026	No	2014	2026
2	2016	2022	No	2016	2022
1	2016	2023	No	2016	2023
1	2017	2021	No	2017	2021
1	2017	2022	No	2017	2022
1	2017	2023	No	2017	2023
1	2017	2025	Yes	2021	2031
1	2017	2025	No	2017	2025
2	2018	2025	Yes	2021	2031
2	2018	2025	No	2018	2025
1	2018	2026	Yes	2021	2031
1	2018	2026	No	2018	2026
1	2018	2030	No	2018	2030
1	2019	2022	Yes	2021	2027
1	2019	2025	No	2019	2025
1	2019	2028	No	2019	2028
24					

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Lease terms are negotiated either on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Lease restructuring and modification

On various dates in 2021, through and with the assistance of AirAsia Group Berhad (AAGB), managed to seek deferrals for payment and restructuring of several aircraft operating leases with lessors. In 2021, 6 aircraft leases were restructured and among the provisions of the new lease terms includes reduced rental rates and extended lease terms. The table presented in the foregoing provides information on the new lease terms following the restructuring.

Lease payment deferrals

On November 19, 2020, the Company's BOD resolved and approved the undertaking to secure deferral of lease payments from third party lessors for certain 5 aircrafts. Terms and conditions of the lease side letter agreed and accepted by the lessor, includes, deferral of rental payments due in various dates in 2020 and 2021 and will be paid in accordance with the agreed payment plan of the parties. Further, all deferred amounts of rent shall accrue interest at the rate of 5% per annum, from the original due date of payment up to the date of actual payment. The lease side letters were approved and signed by both parties at various dates in December 2020.

For the aircrafts that were granted lease payment deferrals, the provisions in the lease side letter undertaking did not constitute a lease concession and hence, no corresponding gain or loss was recognized in profit or loss. The rental payments not stated in the lease side letter will continue to due for payment in accordance with the original terms of the lease agreement.

Total amount of rent payments due that was deferred as of December 31, 2021 amounted to P1,400,839,060 (2020 - P1,904,252,573). Accrued interest recognized in relation to the due rental payments as at December 31, 2021 amounted to P37,563,189 (2020 - P20,706,775) (Note 9).

Movements of the Company's lease liabilities as at and for the years ended December 31 are as follows:

	Note	2021	2020
Balance at beginning of year		12,316,353,273	13,123,519,042
Modifications		1,699,176,651	-
Additions		-	602,640,365
Pre-termination of office lease		(23,906,502)	-
Lease payments		(349,229,409)	(1,397,700,792)
Interest accretion	15	463,763,955	500,466,766
Foreign exchange difference		506,872,532	(512,572,108)
		14,613,030,500	12,316,353,273

Classification of lease liabilities in the statements of financial position as at December 31 are as follows:

	2021	2020
Current	6,432,937,373	4,531,976,112
Non-current	8,180,093,127	7,784,377,161
	14,613,030,500	12,316,353,273

The amount of right-of-use assets recognized in statement of financial position as at December 31, 2021 amounted to P7.71 billion (2020 - P9.89 billion) (Note 6).

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

The following are the amounts recognized in statement of total comprehensive income for the years ended December 31:

	Notes	2021	2020
Amortization of right-of-use asset	6	2,737,779,580	3,305,898,953
Impairment of right-of-use asset	6	-	963,100,000
Interest accretion on lease liability	15	463,763,955	500,466,766
Expenses related to short-term leases and low-value assets	13,14	436,587,547	70,721,977
Foreign exchange difference		506,872,532	(512,572,108)
		4,145,003,614	4,327,615,588

Short term aircraft and engine leases

In 2021, certain aircraft leases and the engine lease expired, pending renewal of its lease agreement. The lease rentals for the periods not covered by the lease term in the renewed and executed contract amounted to P371,428,318 were charged to profit or loss as part of the cost of services.

Hangar and office space

The Company also has existing non-cancellable agreements for its hangar and office space for a period of three (3) years until December 31, 2021. In June 2021, the Company pre-terminated its lease agreement for the office space in Terminal 3 which resulted to a gain of P557,222. Subsequent monthly rentals amounting to P37,809,281 not covered the renewed lease agreement was classified as short term lease and charged to profit or loss as part of operating expenses. The Company is in the process of renegotiating the lease agreements with its lessors as it intends to renew the term for another 3 years

Expenses related to short-term leases pertain to its other office rentals and airport ground handling. Leases related to low-value assets pertain to small office equipment.

Rental expenses charged to profit or loss on other leases for the years ended December 31 are as follows:

	Notes	2021	2020
Cost of services	13		
Short term aircraft and engine lease		371,428,318	-
Bus rental		27,349,948	49,894,375
Operating expenses	14		
Office rental		37,809,281	20,827,602
		436,587,547	70,721,977

The total cash outflow for leases for the year ended December 31, 2021 amounted to P785,816,956 (2020 - P1,468,422,769).

Future minimum lease payments under lease liabilities and the present value of the minimum lease payments as at December 31 are as follows:

	2021	2020
Not later than 1 year	6,997,763,884	4,936,755,260
Later than 1 year but not later than 5 years	6,678,156,935	7,144,401,327
Later than 5 years	3,430,993,027	1,505,296,614
	17,106,913,846	13,586,453,201
Future finance charges	(2,493,883,346)	(1,270,099,928)
	14,613,030,500	12,316,353,273

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

The present value of lease liabilities at December 31 is as follows:

	2021	2020
Within one year	6,432,937,374	4,531,976,112
After one (1) year but not more than five (5) years	5,237,320,079	6,411,425,843
More than five years	2,942,773,047	1,372,951,318
	14,613,030,500	12,316,353,273

Significant estimation of provision for aircraft redelivery costs

The Company is contractually required under its lease contracts to restore its leased aircraft based on a pre-agreed return condition at its own cost at the end of the lease term. These costs are accrued based on estimates made by the Company's engineers and historical cost incurred, which include estimates of future redelivery costs, overhaul and restoration costs. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, the actual redelivery costs will ultimately depend on the aircraft's utilization and market condition at the time of redelivery.

The rollforward analysis of the Company's provision for aircraft redelivery costs for the years ended December 31 are as follows:

	Note	2021	2020
Balance at beginning of year		133,519,022	134,973,261
Effects of change in estimates		8,585,982	(5,787,423)
Accretion charged to profit or loss	15	8,454,375	5,671,412
Foreign exchange difference		(114,742)	(1,338,228)
		150,444,637	133,519,022

Provision for aircraft redelivery is classified in the statement of financial position as at December 31 are as follows:

	2021	2020
Current	41,245,789	23,371,684
Non-current	109,198,848	110,147,338
	150,444,637	133,519,022

Refundable deposits

Deposits related to the foregoing leases as at December 31 are as follows:

	Note	2021	2020
Aircraft leases	7	653,375,961	614,910,558
Hangar and office space	7	18,454,657	18,454,657
		671,830,618	633,365,215

Significant estimation of incremental borrowing rate - leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for entities that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the entity's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's credit rating).

At the date of initial application, the Company used IBR ranging from 4.94% to 5.10% to measure lease liabilities. In 2021, for certain aircrafts that were restructured, the Company used IBR ranging from 7.84% to 9.29% to measure the restructured lease liabilities.

Note 17 - Retirement benefit obligation

The Company has an unfunded defined benefit pension plan covering all of its employees based on years of service and compensation on the last year of employment.

The Company's retirement plan provides for the following benefits based on the final monthly salary for every year of service:

Retirement plan	Rate of final monthly salary	Minimum requirement (in years)	
		Age	Service period
Normal	120%	60	5
Early	100%	50	10
Late	125%	60	Case to case basis

This retirement plan meets the minimum retirement benefit requirements as specified under R.A. No. 7641, *The Retirement Pay Law*.

Under the existing regulatory framework, R.A. No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of the retirement benefit expense charged to profit or loss for the years ended December 31 are as follows:

	Notes	2021	2020
Operating expenses			
Current service cost	14	88,326,257	91,250,540
Curtailment gain	14	(71,085,958)	(23,120,112)
Interest expense			
Interest cost	15	13,869,824	14,352,886
		31,110,123	82,483,314

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Curtailement and retrenchment program

Curtailements relate to reduction in number of employees covered by the retirement plan as a result of the separation program undertaken by the Company. On May 6, 2020, the Company's BOD approved the implementation of cost-saving measures reasonably necessary to the business in light of COVID-19 outbreak. This resulted in reduction of its operations including termination of the services of 267 identified employees of the Company effective July 1, 2020.

As a result of the retrenchment of 267 staff effective July 1, 2020, the Company incurred separation costs amounting to P31.69 million which was paid during the current year. These separations costs are presented as part of salaries and employee benefits within cost of services and operating expenses in profit of loss.

Further, on January 1, 2021, the Company also offered voluntary separation program which resulted in the retrenchment of 357 employees. The separation costs amounting to P55.01 million paid during the current year were charged to profit or loss as part of salaries and employee benefits within cost of services and operating expenses.

For the year ended December 31, 2021, the Company recognized curtailment gain amounting to P71.08 million (2020 - P23.12 million) which represents benefits earned under the existing programs and other one-time termination benefits.

The movements in the present value of defined benefit obligation for the year ended December 31 are as follows:

	Notes	2021	2020
Balance at beginning of year		438,012,516	293,996,883
Current service cost	14	88,326,257	91,250,540
Curtailement gain	14	(71,085,958)	(23,120,112)
Interest cost	15	13,869,824	14,352,886
Benefits paid		(2,288,700)	(8,820,000)
Remeasurement (gain) loss			
Changes in financial assumptions		(81,910,122)	89,502,682
Experience adjustments		(44,521,143)	(19,150,363)
Balances at end of year		340,402,674	438,012,516

The movement in the reserve for remeasurements on retirement benefit obligation for the years ended December 31 is as follows:

	2021	2020
Balances at beginning of year	(32,223,793)	38,128,526
Remeasurement gain (loss)	126,431,265	(70,352,319)
	94,207,472	(32,223,793)

The principal actuarial assumptions used for the year ended December 31 are as follows:

	2021	2020
Discount rate	4.99%	3.78%
Salary increase rate per annum	5.00%	5.00%

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

- Discount rate - This is determined by reference to market yields at the end of the reporting period based on PHP BVAL reference rates as at December 31, 2021 and 2020.
- Future salary increases - This is the expected long-term average rate of salary increase taking into account of inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period when the benefits are expected to be paid.

Shown below are the maturity analyses of undiscounted benefit payments as at December 31:

	2021	2020
Less than 1 year	19,742,064	28,553,083
More than 1 year and up to 5 years	83,979,624	74,300,398
More than 5 years and up to 10 years	154,250,116	134,126,187
More than 10 years and up to 15 years	276,267,081	354,355,391
More than 15 years and up to 20 years	782,557,568	906,363,107
More than 20 years	6,564,271,314	8,999,013,816

The average remaining employee service lives is 22 years as at December 31, 2021 and 2020.

Significant estimation of retirement benefits

The determination of the Company's retirement benefit obligation and retirement benefits are dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates and future rates of salary increase at the end of each year. Discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Company considers the interest rates on Philippine government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligation. Actual results that differ from the Company's assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement benefit expense and obligation.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
<i>December 31, 2021</i>			
Discount rate	+/-1%	(51,520,415)	65,928,734
Future salary increase rate	+/-1%	63,505,171	(50,814,760)
<i>December 31, 2020</i>			
Discount rate	+/-1%	(74,214,289)	95,125,362
Future salary increase rate	+/-1%	90,542,354	(72,460,213)

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

The foregoing sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting periods) has been applied as when calculating the retirement benefit obligation recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change as compared to the previous period.

Note 18 - Related party transactions and balances

The Company the following transactions and balances with its related parties as at and for the years ended December 31:

	Transactions		Terms and conditions
	2021	2020	
(a) Aircraft lease agreements <i>Entities under common shareholder</i>	2,366,256,082	1,093,539,797	The Company entered into various lease agreements with Merah Putih 2, Inc. (MP2) and Red Lotus Aviation Limited, entities under common shareholder, for the lease of the Company's passenger aircraft. In 2018, MP2 started assigning its rights on its lease agreements with the Company to a third-party lessor (Note 16). Aircraft leases are accounted for under PFRS 16 and are recognized as right-of use assets (and are being amortized) and lease liabilities (Note 16).
(b) Collections made by (on behalf of) related parties <i>Entities under common shareholder</i>	16,332,134	11,570,325	These are proceeds from passenger ticket sales collected by related parties on behalf of the Company or vice versa. Collections made by related parties are initially recognized as contract liability by the Company. On a monthly basis, amounts are reconciled. Ticket sales pertaining to the Company are recognized as revenue once lifted and a related receivable from related parties is recorded. Collections made by the Company on behalf of related parties are recorded as liability upon receipt, hence no profit or loss impact.
(c) Intercompany charges to (from), net <i>Entities under common shareholder</i>	2,378,819,663	1,097,545,381	These relate to operating expenses incurred by (for) related parties on behalf of (by the) Company. These charges mainly consist of chargebacks for airport ground handling in cross countries, cargo handling fees, consumables and software maintenance and IT costs among others. These also included refunds made by related parties on behalf of the Company. These are billed by (billed to) the Company at cost.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

	Transactions		Terms and conditions
	2021	2020	
(d) Shared service agreement <i>Entity under common shareholder</i>	115,904,812	37,883,234	The Company has a service agreement with AirAsia SEA Bhd. (AA SEA, formerly AirAsia Global Shared Services Sdn Bhd) to provide finance and accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services (Notes 14). These are charged to profit or loss as part of outside services.
(e) Fuel derivative contracts <i>Entity under common shareholder</i>			AAGB enters into Brent and Crack derivative contracts with third parties to hedge the jet fuel requirements of the AirAsia network.
Settled	39,438,522	1,753,688,167	For the years ended December 31, 2020 and 2019, AAGB entered into fuel derivative contracts with the Company for its related expected fuel consumption (Notes 10 and 22). Amounts of settled hedges are charged to profit or loss as part of fuel costs.
Unsettled	-	(107,360,944)	
	39,438,522	1,646,327,223	
(f) Key management compensation			Key management compensation covering salaries and wages and other short-term benefits are determined based on contract of employment and payable in accordance with the Company's payroll process. Key management personnel are also entitled to retirement benefits.
Salaries	63,816,286	61,624,560	
Other short-term employee benefits	8,437,634	10,924,655	
Retirement benefits	29,113,535	23,774,268	
	101,367,455	96,323,483	
(g) Brand licensing agreement <i>Shareholder of the Parent Company</i>	6,546,397	113,011,513	Please see related discussions in Note 20.
(h) Offsetting arrangement <i>Entity under common control</i>	(324,900)	(2,708,888,447)	On January 20, 2020, AWA's BOD approved the set-off of the outstanding receivable of AWA from the Company against AWA's liability to the Company. Prior to the set-off, AWA has an outstanding receivable from the Company amounting to P3.46 billion. As a result of the arrangement, AWA's remaining receivable from the Company amounted to P753.3 million. In 2021, the Company further offset the outstanding amounts due from AWA from intercompany recharges against its payables. These transactions were accounted for as non-cash operating activities in the statement of cash flows.
(i) Loan and interest payments made on behalf of a related party <i>Parent company</i>	969,294,000	413,252,877	At various dates in 2021 and 2020, the Company has made loan principal and interest repayments on behalf of its parent company.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

As at December 31, the Company's outstanding related party balances in connection with the aforementioned transactions are as follows:

	Ref	2021	2020	Terms and conditions
Trade and other receivables				
Entity under common shareholder (Note 3)	b	93,472,975	55,342,547	These are unsecured, unguaranteed, non-interest bearing, with terms of 30 to 60 days.
Due from a related party				
Parent company	i	1,333,491,407	365,545,738	These are unsecured, unguaranteed, non-interest bearing, and collectible on demand.
Entity under common shareholder	b, c	464,898,378	-	
		1,891,862,760	420,888,285	
Trade and other payables				
Entity under common shareholder	a,b, c,e,g	4,327,996,349	4,025,928,263	These are unsecured, unguaranteed, non-interest bearing, with terms of 30 to 60 days (Note 9).
Entity under common control		752,976,040	753,300,440	
Parent company	d	892,708,699	881,214,657	In 2021, a shareholder affirmed that it will exercise restraint from calling on the net liabilities due from the Company until December 31, 2022. This restraint will however change once the Company's financial position has improved (Notes 1 and 23).
		5,973,681,088	5,660,443,360	
Due to related parties				
Parent company		10,476,727,516	10,134,309,886	These are unsecured, unguaranteed, non-interest bearing, and payable on demand.
Derivative financial liabilities				
Entity under common shareholder (Note 10)	e	-	(107,360,944)	These are unsecured, unguaranteed, non-interest bearing, and payable on demand.

Suretyship and guarantees

There are no collaterals held or guarantees issued by the Company with respect to related party transactions and balances. AAI continues to provide suretyship as security for the Company's credit line facility with BDO which is also secured by corporate guarantee of AAGB (Note 8).

As at December 31, 2021, and 2020, no obligations have been incurred by the aforementioned related parties in relation to this agreement.

Significant judgment on ECL on due from a related party

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The determination of ECL is initially based on the Company's historically observed default rates adjusted to forward looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

As at December 31, 2021 and 2020, management believes that the amounts due from a related party amounting to recoverable.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Service agreement

In 2014, the Company entered into a service agreement with AA SEA for finance, accounting, people department, information and technology, sourcing and procurement and innovation, commercial and technology operation support services.

The Service Agreement is effective for a period of three (3) years and may be terminated by either party for any material breach, in the event that the Company terminates its operations, or if AA SEA is not able to provide the agreed services. In 2018, the Service Agreement was extended for another period of three (3) years until December 31, 2021. The Company is in the process of renewing the terms of this service agreement with the related party, but intends to renew for another three (3) years.

Fees charged by AA SEA are based on actual cost of manpower required plus a certain mark-up. These are included in operating expenses as part of outside services account in the statement of comprehensive income.

Note 19 - Income taxes

There is no provision for current income tax recognized for the year ended December 31, 2021 following the Company's gross loss and net loss positions.

The reconciliation of provision for income tax computed at the statutory income tax rate for the years ended December 31 to the income tax expense as shown in the statements of comprehensive income follows:

	2021	2020
Income tax benefit at statutory rate of 25% (2020 - 30%)	(1,608,788,694)	(2,028,102,140)
Adjustments for		
Movement in unrecognized deferred tax assets	623,792,923	253,076,495
Effects of income tax changes	410,106,079	-
Tax expense from unrecognized DTA on NOLCO	574,911,338	1,775,113,267
Non-deductible expenses	5,412	61,523
Interest income subject to final tax	(27,058)	(149,145)
	-	-

DIT assets are determined using income tax rates in the period the temporary differences, NOLCO and MCIT are expected to be recovered or settled. Unrecognized DIT assets (liabilities), net at December 31 are as follows:

	Notes	2021	2020
NOLCO		8,216,689,578	6,569,186,181
Unrealized foreign exchange loss (gain)		1,475,401,805	(807,375,132)
Lease liabilities (right of use assets), net	6	1,339,025,815	(441,250,298)
Allowance for doubtful accounts	3	1,293,307,245	1,239,568,347
Provision for impairment of ROU	6	963,100,000	963,100,000
Fair value changes in derivatives	10	-	107,360,944
Retirement benefit obligation	17	340,402,674	438,012,516
Provision for aircraft redelivery costs	16	150,444,637	133,519,022
		13,778,371,754	8,202,121,580
Deferred tax effect at 25% (2020 - 30%)		3,444,592,939	2,460,636,474
Excess MCIT		95,091,782	105,423,130
Unrecognized DTA		3,539,684,721	2,566,059,604

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Movement of unrecognized deferred tax assets charged to other comprehensive income for the years ended December 31 and therefore not forming part of the reconciliation above follows:

	Note	2021	2020
Remeasurement gain (loss) on retirement obligation	17	126,431,265	(70,352,319)
Tax rate		25%	30%
Tax effect		31,607,816	(21,105,696)

NOLCO could be carried over as a deduction from taxable income for the next three consecutive taxable years following the year of such loss.

In 2020, pursuant to Section 4 (bbbb) of Bayanihan II and as implemented under RR 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss.

Details of the Company's NOLCO at December 31 are as follows:

Year loss was incurred	Year of expiration	2021	2020
2018	2021	652,141,956	652,141,956
2020	2025	5,917,044,225	5,917,044,225
2021	2026	2,299,645,353	-
		8,868,831,534	6,569,186,181
Expired during the year		(652,141,956)	-
		8,216,689,578	6,569,186,181
Tax rate		25%	30%
Unrecognized DIT asset on NOLCO		2,054,172,395	1,970,755,854

In compliance with the Act, the Company shall pay the greater of minimum corporate income tax (MCIT), which is 1% (2020 - 2%) of gross income as defined under the Act, and the normal income tax. Any excess of MCIT over the normal income tax shall be carried forward for the next three consecutive taxable years immediately following the period such MCIT was paid.

Details of the Company's MCIT at December 31 are as follows:

Year paid	Year of expiration	2021	2020
2017	2020	-	52,396,910
2018	2021	10,331,348	10,331,348
2019	2022	95,091,782	95,091,782
		105,423,130	157,820,040
Expired during the year		(10,331,348)	(52,396,910)
Unrecognized DIT asset on excess MCIT		95,091,782	105,423,130

Significant judgment on the determination of current and deferred income taxes

Significant judgment is required in determining the income tax expense recognized in profit or loss. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The income tax expense is determined based on assessment income and expense are taxable and deductible, respectively. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax and related liability in the period in which such determination is made.

Realization of the future tax benefit related to DIT assets is dependent on the Company's ability to generate future taxable income during the periods in which these are expected to be recovered. Management has considered these factors in reaching a conclusion to not recognize any of its deferred income tax assets in the statement of financial position, except to the extent of taxable temporary differences on right-of-use assets and unrealized foreign exchange gain, as at December 31, 2021 and 2020.

Passage of Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021, Republic Act (RA) No.11534, otherwise known as CREATE, was signed into law. The salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

1. CIT rate shall be reduced to 25% beginning July 1, 2020 for domestic corporations and resident foreign corporations (RFCs) while January 1, 2021 for non-resident foreign corporations. Domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million, excluding land on which the particular business entity's office, plant and equipment are situated, are subject to 20% income tax.
2. Temporary reduction of the minimum corporate income tax rate to 1% for domestic corporations and RFCs beginning July 1, 2020 until June 30, 2023.

Note 20 - Commitments

Brand License Agreement

On December 16, 2010, AAGB (Licensor) and AAI (Licensee) entered into a Brand License Agreement (BLA). The BLA provides the Licensee a non-exclusive and non-assignable license to reproduce and use the AirAsia Brand: (a) in and for the purpose of Business Operations; (b) under the Permitted Name (including to adopt it as the Licensee's corporate name for the duration of the BLA); (c) in accordance with the AirAsia Branding Guidelines; and (d) in and for the purpose of Marketing Communications.

Pursuant to the BLA, the Licensee shall comply at all times with the recommendations made by the Licensor in respect of the use of the AirAsia Brand. The Licensee shall also use the AirAsia brand in accordance with all mandatory standards, specifications and operating procedures and other obligations contained in the Licensor's procedures manual, subject to applicable laws. The BLA provides that nothing in the agreement shall be construed to give control over the services and licensed flights to the Licensor. The Licensee shall have the technical and operational control of the aircraft used for the business operations and shall comply with all applicable laws governing such activity, including, as a minimum, those specified by the relevant competent authorities, and shall have the final authority concerning the operation, maintenance and safety of the aircraft and its passengers and crew.

The BOD of AAI has the power to amend and/or revise the BLA upon agreement with the Licensor under Clause 27.1 of the BLA.

On January 1, 2013, AAGB and AAI entered into an addendum to the BLA wherein AAGB granted AAI a limited authority to sub-license the AirAsia Brand to the Company for a period of six (6) months effective from September 26, 2013, subject to renewal option.

On January 4, 2017, the Company, AAGB and AAI entered into an Amendment and Extension Agreement of the BLA. Amendments to the 2010 BLA includes the following:

- The BLA was amended to include the Company as a Licensee
- Ratification of the effectivity of the BLA which was extended for another five (5)-year term from December 16, 2015 to December 15, 2020; and,
- The Company and AAI have undertaken to comply at all times, insofar as feasible and permissible under the laws of the Philippines, with the recommendations made by AAGB under the BLA.

On May 2, 2019, an amendment was executed which provided for the effectivity of the BLA for five (5) years from January 2019; and automatic extension for five (5) years by mutual agreement by AAGB and the Company.

Further in 2021, the Group recalibrated the BLA charge rates across the entities in using the AirAsia Brand and reduced the license fee equivalent to 0.35% (2020 - 1.75%) of revenue per annum. The Company shall also pay the Licensor additional marketing cost as may be agreed between the parties and allocated as Licensee's contribution.

For the year ended December 31, 2021, brand license fees charged to profit or loss amounted to P6.5 million (2020 - P113.01 million) (Note 18).

Note 21 - Significant judgments, use of estimates and assumptions

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

21.1 Critical accounting estimates and assumptions

- *Estimation of allowance for ECL on trade receivables (Note 3)*
- *Impairment of right-of-use assets (Note 6)*
- *Determination of provisions (Note 9)*
- *Estimation of fair value of derivative instruments (Note 10)*
- *Estimation of provision for aircraft redelivery costs (Note 16)*
- *Estimation of incremental borrowing rate - leases (Note 16)*
- *Estimation of retirement benefit obligation (Note 17)*

21.2 Critical judgment in applying the Company's accounting policies

- *Assessment of the Company's ability to continue as a going concern (Note 1)*
- *Determination of net realizable value of expendable parts, materials and supplies (Note 4)*
- *Recoverability of property and equipment and ROU asset (Note 6)*
- *Recoverability of due from a related party (Note 18)*
- *Determination of current and deferred taxes (Note 19)*
- *Determination of functional currency (Note 22)*

Note 22 - Financial risk and capital management

22.1 Financial risk factors

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, due from a related party, refundable deposits, trade and other liabilities (excluding amounts payable to government agencies and agent deposits), lease liabilities and loans payable. The main purpose of these financial instruments is to finance the Company's operations. The Company also enters into fuel derivative transactions to manage its exposure to fuel price risks arising from the Company's operations.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

The Company is exposed to a variety of financial risks: credit risk, liquidity risk and market risks (particularly foreign exchange risk, interest rate risk and fuel price risk). The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company has no significant financial assets and liabilities exposed to other market risks such as price risk.

Financial risk management is carried out by a Company's local finance team under policies approved by the Board of Directors (BOD) and its shareholders. These policies focus on actively securing the Company's short to medium term cash flows by minimizing the exposure to financial markets. The Company does not engage in the trading of financial assets for speculative purposes.

22.2 Components of the Company's financial assets and liabilities

Details of the Company's financial assets as at December 31 are as follows:

	Notes	2021	2020
At amortized cost			
Cash	2	41,855,266	40,393,979
Trade and other receivables	3	1,443,199,691	1,380,105,289
Due from a related party	18	1,798,389,785	365,545,738
Deposits	7	760,612,601	728,547,956
		4,044,057,343	2,514,592,962

As at December 31, 2021, trade and other receivables are presented gross of allowance for impairment of receivables amounting P1,293,307,245 (2020 - P1,239,568,347).

As at December 31, 2021, spares and maintenance deposits and other deposits amounting to P24,986,595 (2020 - P20,644,231) are considered as non-financial assets.

Details of the Company's financial liabilities as at December 31 are as follows:

	Notes	2021	2020
At amortized costs			
Trade and other payables	9	13,735,591,836	11,134,278,642
Due to related parties	18	10,476,727,516	10,134,309,886
Loans payable	8	974,229,767	916,994,530
Lease liabilities	16	14,613,030,500	12,316,353,273
Provision for aircraft redelivery costs	16	150,444,637	133,519,022
Future interest payable on loans and leases		2,531,035,901	1,304,422,884
At fair value			
Derivative financial liabilities	10	-	107,360,944
		42,481,060,157	36,047,239,181

Trade and other payables exclude payable to government agencies, provision for claims and deposits from travel agents which are considered as non-financial liabilities.

22.3 Credit risk

Credit risk refers to the risk that a counterparty will cause a financial loss to the Company by failing to discharge an obligation. Significant changes in the economy, that may represent a concentration in the Company's business, could result in losses that are different from those provided for at reporting dates.

Credit risk arises from cash deposits with banks, as well as credit exposure on trade and other receivables, due from a related party and deposits from other counterparties, and derivative financial assets. The Company's maximum exposure is equal to the fair value of these financial assets. The fair values of these financial assets approximate their net carrying amounts.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Provision for impairment of financial assets are determined using ECL. A credit loss is the difference between the contractual cash flows to which the Company is entitled and the cash flows expected by the Company. Since the ECL takes into account the amount and timing of payments, a credit loss may also occur if the Company expects payment to be made in full, but later than the contractually agreed date.

ECL is determined through a three-stage general approach. In accordance with the three-stage model, debt instruments measured at amortized cost are initially recognized in Stage 1. The expected loss is equal to the loss that may occur due to possible default events in the twelve months following the reporting date. Financial assets that have experienced a significant increase in credit risk of the counterparty since initial recognition are transferred from Stage 1 to Stage 2. A significant increase includes situations in which debtors are no longer able to meet their payment obligations at short notice or when it appears that the debtor has experienced an actual or expected deterioration in business performance. The credit risk can then be measured using the probability of default over the instrument's lifetime. The impairment loss is equivalent to the loss that may occur due to possible default events during the remaining term of the financial asset. If there is objective evidence that a financial asset is impaired, it must be transferred to Stage 3.

The Company has the following financial assets as at December 31 where the expected credit loss model has been applied:

	Gross carrying amount	Credit risk			Loss allowance	Net carrying amount
		Stage 1	Stage 2	Stage 3		
2021						
Cash in banks	40,139,266	40,139,266	-	-	-	40,139,266
Trade and other receivables	149,892,446	28,822,165	121,070,281	-	-	149,892,446
Cargo agents Due from a related party	1,293,307,245	-	-	1,293,307,245	(1,293,307,245)	-
Deposits	1,798,389,785	1,798,389,785	-	-	-	1,798,389,785
	760,612,601	760,612,601	-	-	-	760,612,601
	4,042,341,343	2,627,963,817	121,070,281	1,293,307,245	(1,293,307,245)	2,749,034,098
2020						
Cash in banks	38,647,979	38,647,979	-	-	-	38,647,979
Trade and other receivables	140,536,942	65,832,708	74,704,234	-	-	140,536,942
Cargo agents Due from a related party	1,239,568,347	-	-	1,239,568,347	(1,239,568,347)	-
Deposits	365,545,738	365,545,738	-	-	-	365,545,738
	728,547,956	728,547,956	-	-	-	728,547,956
	2,512,846,962	1,198,574,381	74,704,234	1,239,568,347	(1,239,568,347)	1,273,278,615

Credit quality of the Company's financial assets

Cash in banks

To minimize credit risk exposure from cash in banks, the Company maintains cash deposits in reputable banks. For balances with banks and financial institutions, credit risk is managed in accordance with the Company's policy. Counterparty limits are reviewed and approved by the Company's Board of Directors (BOD) and are updated when necessary. Cash are placed in various local banks that have good reputation and low probability of insolvency.

Amounts deposited in these banks as at December 31 are as follows:

	2021	2020
Universal	33,211,837	34,535,767
Commercial	6,927,429	4,112,212
	40,139,266	38,647,979

The remaining balance of cash as presented in the statements of financial position as at December 31, 2021 amounting to P1,716,000 (2020 - P1,746,000), represent cash on hand, which is not exposed to credit risk.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit quality of trade and other receivables are further classified and assessed by reference to historical information about each counterparty's historical default rates). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Company's historically observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Stage 1 - Customer balances without history of default and assessed to be fully recoverable.

Stage 2 - Customers with some defaults in the past. All defaults were fully recovered.

Stage 3 - Individual assessed customer with defaults and which the Company no longer expects to recover the balance despite its collection efforts. Loss rates applied for outstanding amounts in this stage is 100%.

Due from related parties

Due from related parties arise mainly from advances and payments made by the Company on behalf of its related parties. These collectible on demand and therefore, expected credit losses are based on the assumption that repayment of balances outstanding are demanded at the reporting date.

Based on assessment of qualitative and quantitative factors that are indicative of the risk of default, including but not limited to, availability of accessible highly liquid asset and internal and external funding of related parties, Company has assessed that the outstanding balances are exposed low credit risk. Expected credit losses on these balances have therefore been assessed to be insignificant.

Deposits

Deposits that are neither past due nor impaired consist primarily of amounts related to the Company's aircraft leases which are fully collectible at the end of the lease term.

None of the financial assets that are fully performing has been renegotiated as at December 31, 2021 and 2020.

22.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity risk management implies maintaining sufficient cash, timely collection of receivables from customers, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of its underlying business, the Company aims to maintain flexibility in funding by keeping track of daily cash sales collections and maintaining committed credit lines available with local banks. The Company also obtains funding from its shareholders as well as other third-party banking institutions, as necessary, to finance its operations and working capital requirements.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

The amounts disclosed are the contractual undiscounted cash flows. Amounts due within twelve months equal their carrying balances, as the impact of discounting is not significant.

The tables below analyze the Company's financial liabilities and financial assets held to manage liquidity into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

	Due and demandable	Due within one year	Within 1 to 5 years	Later than 5 years	Total
<i>At December 31, 2021</i>					
Trade and other payables	-	13,735,591,836	-	-	13,735,591,836
Due to related parties	10,476,727,516	-	-	-	10,476,727,516
Loans payable	-	974,229,767	-	-	974,229,767
Lease liabilities, gross	-	6,997,763,884	6,678,156,935	3,430,993,027	17,106,913,846
Provision for aircraft redelivery costs	-	41,245,789	109,198,848	-	150,444,637
Future interest payable on loans	-	37,152,555	-	-	37,152,555
	10,476,727,516	21,785,983,831	6,787,355,783	3,430,993,027	42,481,060,157

	Due and Demandable	Due within one year	Within 1 to 5 years	Later than 5 years	Total
<i>At December 31, 2020</i>					
Trade and other payables	-	11,134,278,642	-	-	11,134,278,642
Due to related parties	10,134,309,886	-	-	-	10,134,309,886
Loans payable	-	916,994,530	-	-	916,994,530
Lease liabilities, gross	-	4,936,755,260	7,144,401,327	1,505,296,614	13,586,453,201
Provision for aircraft redelivery costs	-	5,859,841	127,659,181	-	133,519,022
Future interest payable on loans	-	34,322,956	-	-	34,322,956
Derivative financial liabilities	-	107,360,944	-	-	107,360,944
	10,134,309,886	17,135,572,173	7,272,060,508	1,505,296,614	36,047,239,181

22.5 Market risk

a) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company closely monitors changes in foreign exchange rates and records any exchange gains or losses in profit or loss. Most of the Company's transactions are carried out in Philippine Peso. Exposures to currency exchange rates arise from the Company's overseas purchases, which are primarily denominated in United States (US) Dollar, Chinese Yuan (CNY) and Korean Won (KRW).

The Company manages its foreign currency exchange risk through minimizing transactions in foreign currency and maintaining sufficient cash in foreign currency to cover its maturing obligations denominated in foreign currency.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

The Company's foreign currency denominated monetary assets and liabilities as of December 31 are as follows:

	2021					
	USD	Philippine Peso equivalent	CNY	Philippine Peso equivalent	KRW	Philippine Peso equivalent
Cash	\$56,162	P2,865,947	¥292,557	P2,343,382	₩30,975,254	P1,239,010
Trade and other receivables	22,691,900	1,157,967,657	-	-	2,431,061,501	97,242,460
Deposits	13,321,076	679,774,508	6,200,000	49,662,000	-	-
	\$36,069,138	P1,840,608,112	¥6,492,557	P52,005,382	₩2,462,036,755	P98,481,470
Trade and other payables	(84,094,803)	(4,291,357,797)	(4,096,490)	(32,812,885)	(1,630,357,043)	(P65,214,282)
Due to related parties	(118,049,925)	(6,024,215,167)	(1,438,986)	(11,526,278)	-	-
Loans payable	(19,090,909)	(974,209,086)	-	-	-	-
Lease liabilities	(286,355,501)	(14,613,030,500)	-	-	-	-
Asset retirement obligation	(2,948,098)	(150,441,441)	-	-	-	-
	(\$510,539,236)	(P26,053,253,991)	(¥5,535,476)	(P44,339,163)	(₩1,630,357,043)	(P65,214,282)
Net foreign currency assets (liabilities)	(\$474,470,098)	(P24,212,645,879)	¥957,081	P7,666,219	₩831,679,712	P33,267,188

	2020					
	USD	Philippine Peso equivalent	CNY	Philippine Peso equivalent	KRW	Philippine Peso equivalent
Cash	\$213,303	P10,244,948	¥177,100	P1,305,224	₩14,285,135	P571,405
Trade and other receivables	25,274,734	1,213,945,480	-	-	2,431,061,501	97,242,460
Deposits	13,400,450	643,623,617	6,200,000	45,694,000	-	-
	\$38,888,487	1,867,814,045	¥6,377,100	46,999,224	₩2,445,346,636	97,813,865
Trade and other payables	(50,915,531)	(2,445,472,956)	(3,529,935)	(26,015,623)	(3,097,396,128)	(123,895,845)
Due to related parties	(118,049,925)	(5,670,303,853)	(1,898,265)	(13,990,216)	-	-
Loans payable	(19,090,909)	(916,995,546)	-	-	-	-
Lease liabilities	(254,292,983)	(12,214,480,275)	-	-	-	-
Asset retirement obligation	(2,779,909)	(133,519,021)	-	-	-	-
	(\$445,129,257)	(21,380,771,651)	(¥5,428,200)	(40,005,839)	(₩3,097,396,128)	(123,895,845)
Net foreign currency assets (liabilities)	(\$406,240,770)	(19,512,957,606)	¥948,900	P6,993,385	(₩652,049,492)	(P26,081,980)

The exchange rates used to restate the Company's foreign currency-denominated assets and liabilities as at December 31 are as follows:

	2021	2020
US Dollar	P51.03 to US\$1.00	P48.03 to US\$1.00
Chinese Yuan	P8.01 to ¥1.00	P7.37 to ¥1.00
Korean Won	P0.04 to ₩1.00	P0.04 to ₩1.00

Details of foreign exchange gain (loss) charged to profit or loss for the years ended December 31 are as follows:

	2021	2020
Realized foreign exchange gain	18,630,565	347,234,265
Unrealized foreign exchange (loss) gain	(1,475,401,805)	807,375,132
	(1,456,771,240)	1,154,609,397

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's loss before tax as at December 31:

Increase/decrease in foreign exchange rates	2021		
	USD	CNY	KRW
+0.55%	(107,321,472)	38,464	(215,001)
-0.55%	107,321,472	(38,464)	215,001

Increase/decrease in foreign exchange rates	2020		
	USD	CNY	KRW
+0.54%	(105,370,219)	37,764	(211,092)
-0.54%	105,370,219	(37,764)	211,092

The reasonable possible changes in foreign exchange rates in 2021 and 2020 used in the sensitivity analyses were determined based on average movement in the monthly exchange rates during the past 12 months from reporting dates.

Significant judgment on determination of functional currency

The Company's booking revenues are in various currencies. Bank loans and certain costs, including fuel, repairs and leases are incurred in US\$, while some costs and expenses (e.g., salaries and wages) are in Philippine Peso. PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Company's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company.

In making this judgment, the Company considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained

Management determined that Philippine Peso is the functional currency for the Company, after considering the criteria stated in PAS 21.

b) *Interest rate risks*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to its loans payable with floating and/or fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

As at December 31, 2021 and 2020, the Company's loans payable is subject to floating interest rate. If interest rates increase/decrease by 100 basis points (all other variables held constant), profit (2020 - loss) before income tax would have been P9.74 million higher / lower (2020 - P9.17 million higher/lower).

c) *Fuel price risk*

The Company is exposed to jet fuel price risk and seek to hedge its fuel requirements using fuel swaps. This risk is managed at AAGB level through hedging strategies with the objective of managing price levels within an acceptable band.

APPENDIX XV(A) – AUDITED FINANCIAL STATEMENTS OF PAA FOR THE FYE 31 DECEMBER 2021 (cont'd)

Upon maturity date of remaining derivative financial instruments in April 2021, the Company has not further participated in the Group's hedges.

The Company's derivative assets arising from fuel derivative contracts amounted to nil as at December 31, 2021 (2020 - nil), while its derivative liabilities amounted to nil as at December 31, 2021 (2020 - P107.36 million).

There is an economic relationship between the hedged items and the hedging instruments as the terms of the fuel price swaps and options match the terms of the hedged items (i.e., notional amount and expected payment date). The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the fuel price swaps and options are identical to the hedged risk components. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks

Hedge ineffectiveness can arise from differences in the timing of the cash flows of the hedged items and the hedging instruments and the counterparties' credit risk differently impacting the fair value movements of the hedging instruments. No hedge ineffectiveness is recognized in the statement of total comprehensive income for the year ended December 31, 2021 (Note 10).

Maturity profile of derivative financial instruments as at December 31, 2021 is no longer significant following the expiration of the hedge contracts.

Following is the maturity profile of derivative financial instruments as at December 31, 2020:

	One to three months	Three to six months	Six to 12 months	12 to 15 months	More than 15 months	Total
Designated hedges						
Brent swaps						
Notional quantity	55,732 bbl	-	145,531 bbl	-	-	201,263 bbl
Notional amount	\$3,423,296	-	\$9,273,570	-	-	\$12,696,866
Average hedged rate	\$61.42	-	\$63.72	-	-	\$62.57
Not designated hedges						
Brent swaps						
Notional quantity	-	-	-	-	-	-
Notional amount	\$-	\$-	\$-	\$-	\$-	\$-
Average hedged rate	-	-	-	-	-	-
Brent options						
Notional quantity	-	-	-	-	-	-
Notional amount	\$-	\$-	\$-	\$-	\$-	\$-
Average hedged rate	-	-	-	-	-	-
Crack swaps						
Notional quantity	-	-	-	-	-	-
Notional amount	\$-	\$-	\$-	\$-	\$-	\$-
Average hedged rate	-	-	-	-	-	-
Crack options						
Notional quantity	-	-	-	-	-	-
Notional amount	\$-	\$-	\$-	\$-	\$-	\$-
Average hedged rate	-	-	-	-	-	-

22.6 Fair value estimation

As at December 31, 2021 and 2020, the carrying amounts of the Company's cash, trade and other receivables, due from a related party, trade payables and other current liabilities, loans payable and due to related parties approximate their fair values due to the short-term nature of these financial instruments.