**AIRASIA X BERHAD ("AAX" OR THE "COMPANY")**

- **PROPOSED DEBT RESTRUCTURING**
- **PROPOSED CORPORATE RESTRUCTURING COMPRISING:-**
  - **(I) PROPOSED SHARE CAPITAL REDUCTION; AND**
  - **(II) PROPOSED SHARE CONSOLIDATION**

**(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")**

## 1. INTRODUCTION

Globally, the commercial airline industry continues to face uncertainty as a result of the unprecedented coronavirus disease 2019 ("**COVID-19**") pandemic. Travel and border restrictions have been enforced and prolonged in many countries which continues to virtually eliminate demand for international air travel, adversely impacting the financial performance of AAX and its subsidiaries ("**Group**"). This is more evident in AAX because the airline has no domestic travel to support its business. Even when the travel restrictions ease and international borders re-open, these will be done progressively and cautiously. Hence, any recovery of demand is also expected to be gradual.

The Group is facing severe liquidity constraints in meeting its debt and other financial commitments. Prior to this announcement, the Group embarked on a cost containment exercise that included grounding all scheduled flights, salary cuts and retrenchment across the Group.

As at 30 June 2020, the Group had an unaudited deficit in shareholders' equity of RM0.96 billion and its unaudited current liabilities of RM3.38 billion exceeded unaudited current assets of RM1.39 billion by RM1.99 billion. Based on its current financial position and the industry outlook, the Group will not be able to meet its immediate debt and other financial commitments.

An imminent default of such commitments will result in early termination of arrangements with suppliers, creditors and financiers that will precipitate a potential liquidation of the airline.

**To avoid a liquidation and to allow the airline to fly again, the only option is for AAX to undertake a group-wide debt and corporate restructuring and update its business model to survive and thrive in the long term. The right-sizing of the Group's level of operations and its financial obligations are pre-requisites for the raising of any fresh capital, comprising both equity and debt, that will be used to support the implementation of the Group's revised business plan.**

With the support of all stakeholders during this period and post-restructuring, AAX continues to strive for the following:-

(a) AAX aims to reset and re-emerge from the COVID-19 crisis as a stronger and sustainable enterprise;

(b) AAX recognises the role it has served with the strong support of its business partners, being an integral member of a world-renowned Malaysian brand, which contributes significantly to multiple industries within the Malaysian economy and regional economy;

(c) Continued support of numerous jobs directly and indirectly along the supply chain, contributing to Malaysia's total employment rate; and

(d) AAX's network also synergises with an extensive regional network and plays a large role in carrying a great number of international travellers from all across the world to Malaysia. AAX remains committed in this role to support the nation's tourism industry and to provide greater international connectivity to Malaysia.

## 2. DETAILS OF THE PROPOSALS

**Overview of the debt and corporate restructuring**

The Group is undertaking a **debt restructuring** scheme with unsecured creditors of the Group pursuant to Section 366 of the Companies Act, 2016 ("**Proposed Debt Restructuring**"), which entails the following:-

(a) a restructuring of approximately RM63.50 billion of debts to be reconstituted into an acknowledgement of indebtedness by AAX for a principal amount of up to RM200.0 million;

(b) any balance in excess of the abovementioned reconstituted amount and all other sums after the cut-off date as at 30 June 2020 ("**Cut-Off Date**") arising from these debts *(including interest, penalty interest etc)* shall be waived;

(c) all existing contracts, agreements and/or arrangements previously entered into with the relevant creditors will be deemed terminated following their approval of the Proposed Debt Restructuring and the High Court's sanction thereto; and

(d) airline customers and travel agents who purchased or made advance payments for flights and travel agents which had placed deposits for the purchase of seat inventory will receive travel credits with extended validity for future travel or purchase of seat inventory.

Further details of the Proposed Debt Restructuring are set out in **Section 2.1** below.

The Company is also undertaking a **corporate restructuring** ("**Proposed Corporate Restructuring**") as follows:-

(a) a proposed reduction of 90% of the issued share capital of AAX pursuant to Section 116 of the Companies Act, 2016 ("**Proposed Share Capital Reduction**"); and

(b) a proposed consolidation of every 10 existing ordinary shares in AAX ("**AAX Shares**") into 1 AAX Share ("**Consolidated Share**") ("**Proposed Share Consolidation**"),

Further details of the Proposed Corporate Restructuring are set out in **Section 2.2** below.

(the Proposed Debt Restructuring and the Proposed Corporate Restructuring shall be collectively referred to as the "**Proposals**").

The completion of the Proposals is key to the survival of the Group as well as its ability to remain a going concern. In order to implement the Group's revised business plan, AAX will require significant concessions from its suppliers, creditors and financiers. The Group will also require fresh debt and equity capital but without right-sizing the Group's financial obligations and its financial position, it will not be possible to raise the new funding required to reset the airline.

Further details of the Proposals are set out in the ensuing sections of this announcement.

### 2.1 Details of the Proposed Debt Restructuring

The Group recognises and appreciates the support of airline customers who purchased or made advance payments to the Group for flights which have been cancelled or for future flights and travel agents which had placed deposits with AAX for purchase of seat inventory *(whose debts are unsecured)*. As such, the Group will convert their advance payments / deposits into travel credits with extended validity for future travel or purchase of seat inventory.

In the current environment, the Group will not be able to meet its debt and other financial commitments in full and will require significant payment deferrals and concessions from its suppliers, creditors and financiers.

The Group is undertaking the Proposed Debt Restructuring pursuant to Section 366 of the Companies Act, 2016[(1)], to deal with the debts owing by the Group to the unsecured creditors ("**Scheme Creditors**").

Pursuant to the Proposed Debt Restructuring:-

(i) subject to finalisation, the debts of the Scheme Creditors to be restructured amount to approximately RM63.50 billion *(which includes all crystallised capital commitments (such as future lease rentals and aircraft purchase commitments) and estimated compensation and/or penalties arising from early termination of contracts, agreements and/or arrangements)* as at the Cut-Off Date;

(ii) the actual payment to each Scheme Creditor will depend on the total outstanding amount owing to each Scheme Creditor as at the Cut-Off Date;

(iii) all existing contracts, agreements and/or arrangements entered into with the Scheme Creditors will be deemed terminated if the Proposed Debt Restructuring is approved by at least 75% of the total creditors present and voting *(either in person or by proxy)*[(1)(2)] on the date of the court convened meeting which is to be determined and is sanctioned by the High Court; and

(iv) debts in excess of the Debt Settlement Amount *(as defined below)* and all other sums after the Cut-Off Date arising from these debts *(including interest, penalty interest etc)* shall be waived.

*Notes:-*

*(1) Sections 365 to 369 of the Companies Act, 2016 provides for a mechanism for statutory scheme of compromise or arrangement between a company and its creditors. In a scheme of arrangement involving a compromise of the company's debts, the scheme shall be binding on all creditors who are part of the scheme if it is approved by at least 75% of the total value of creditors present and voting either in person or by proxy at the court convened meeting and is sanctioned by the High Court of Malaya.*

*(2) Any new contracts, agreements and/or arrangements to be subsequently entered into with the suppliers, creditors and financiers by the Group will be based on terms to be agreed upon.*

Under the Proposed Debt Restructuring, the Group proposes that the total outstanding amounts owing to the Scheme Creditors as at the Cut-Off Date to be restructured and reconstituted into an acknowledgement of indebtedness by AAX for a principal amount of up to RM200.0 million ("**Debt Settlement Amount**"), an amount which the Group's future operational cash flows may accommodate and payable annually over a period of up to 5 years via 3 equal payments from the 3$^{rd}$ to the 5$^{th}$ anniversaries of the implementation of the Proposed Debt Restructuring. The Debt Settlement Amount shall be unsecured and carry an interest rate of 2% per annum payable in arrears, commencing on the anniversary of the implementation date of the Proposed Debt Restructuring. In the case of airline customers and travel agents, they will receive travel credits with extended validity for future travel or purchase of seat inventory.

### 2.2 Details of the Proposed Corporate Restructuring

#### 2.2.1 Proposed Share Capital Reduction

The Proposed Share Capital Reduction proposed to be undertaken entails the reduction of the issued share capital of the Company by 90%, i.e. a reduction of approximately RM1.38 billion *(from RM1.53 billion to RM0.15 billion)*. The credit arising from the Proposed Share Capital Reduction of RM1.38 billion will be used to offset the accumulated losses of the Company.

#### 2.2.2 Proposed Share Consolidation

The Proposed Share Consolidation involves the consolidation of every 10 existing AAX Shares held by the shareholders of AAX, whose names appear in the Company's Record of Depositors at the close of business on an entitlement date to be determined later ("**Entitlement Date**") ("**Entitled Shareholders**") into 1 Consolidated Share.

Fractional entitlements arising from the Proposed Share Consolidation in respect of the Consolidated Shares, if any, shall be disregarded and dealt with by the Board of Directors of AAX ("**Board**") in such manner at its absolute discretion as it may deem fit or expedient and in the best interests of the Company.

As at 5 October 2020, being the latest practicable date prior to the date of this announcement, the issued share capital of AAX is RM1.53 billion comprising 4,148,149,102 AAX Shares. For illustration purposes, the 4,148,149,102 AAX Shares will be consolidated into 414,814,910 Consolidated Shares pursuant to the Proposed Share Consolidation.

**<u>Ranking of the Consolidated Shares</u>**

The Consolidated Shares shall rank *pari passu* in all respects with each other.

**<u>Listing and quotation for the Consolidated Shares</u>**

No suspension will be imposed on the trading of AAX Shares on the Main Market of Bursa Securities for the purpose of implementing the Proposed Share Consolidation. The Consolidated Shares shall be listed and quoted on the Main Market of Bursa Securities on the next market day following the Entitlement Date.

The notices of allotment of the Consolidated Shares will be issued and despatched to the Entitled Shareholders within 4 market days after the listing and quotation for the Consolidated Shares on the Main Market of Bursa Securities.

The Proposed Corporate Restructuring is subject to the approval of the shareholders of AAX at an extraordinary general meeting to be convened and the confirmation of the High Court of Malaya for the Proposed Share Capital Reduction. Further, the Proposed Share Capital Reduction shall only become effective upon the office copy of the court order confirming the reduction of share capital being lodged with the Registrar of Companies of Malaysia.

## 3. OVERVIEW OF THE GROUP'S REVISED BUSINESS PLAN

AAX has been operating for 13 years and has built a significant market presence in the Asia Pacific region. The restructuring will provide new opportunities for the Group to transform and reset its business and to emerge in a stronger financial position capable of attracting new equity and debt investment that are critical to the long-term viability of the Group.

Previously, AAX focused on a growth and expansion strategy to capture growing traffic in the region by expanding fleet size and investing in new routes, achieving market leadership in China, Australia, Japan, South Korea and India with about 50% market share. Going forward, AAX will strive to rebound as a low-cost medium haul airline with a leaner and more sustainable cost base while focusing on building business sustainability, growing yield instead of market share and compete in a more rational pricing environment.

The Group's revised business plan can be categorised as follows:-

### (i) Rationalisation of network

AAX will rationalise its network plan *(by suspension and/or termination of unprofitable and/or immature routes)*, shifting its focus from market share to that of sustainability and yield and driving profitability, focusing on routes that have proven load and yield performance.

Upon full resumption of all targeted routes in the revised business plan, AAX will focus on rebuilding flight frequency to optimal levels and avoid deploying excess capacity in its markets. In view of the current uncertainty of COVID-19 situation, AAX will continuously review its network resumption timeline, while adhering to the most recent travel restrictions, travel bubbles and border policies of individual countries. AAX also continues to engage with tourism and airport authorities, governments and other industry stakeholders to pave the way for prospects of travel bubbles in green zone countries and reinstate the public's confidence to travel. AAX hopes to begin operating with 2 aircraft in selected markets in the first quarter of 2021 and to gradually resume flights to all destinations by end-2021.

### (ii) Leaner and more sustainable cost structure

AAX will continue its focus of medium haul flight operations within the 5 to 6-hour range and defer investment in new or immature routes while reopening, defending and building load and yield in its core routes. To streamline the Group's cost base, it will aim to review and restructure all contracts, agreements and/or arrangements to better align with the Group's future size and requirements and lowering costs significantly. In addition, the Group will undertake manpower consolidation and optimisation in tandem with the rationalised network ramp up plan. By overhauling the cost base, the Group seeks to achieve a revised cost structure that matches the revenue generation trajectory and business recovery during / post COVID-19.

### (iii) Optimisation of fleet

The Group will operate a fleet of up to 25 A330 aircraft on a rotational. It remains engaged with all key business partners in respect of contracts, agreements and/or arrangements which are required to ensure the survival of the Group. These contracts, agreements and/or arrangements will be based on terms to be agreed upon that are reflective and supportive of the Group's revised business plan. We will need the support and understanding of our business partners to execute this business plan.

## 4. RATIONALE FOR THE PROPOSALS

The Group aims to rebound as a low-cost medium haul airline with a leaner and more sustainable cost base as envisaged by its revised business plan. However, the Group is facing severe liquidity constraints and will not be able to meet its immediate debt and other financial commitments. For the Group's survival, fresh capital from existing and new investors and/or financiers is required and any injection of such capital will first require the Group to undertake a right-sizing of its financial obligations, which are the objectives of the Proposals, as follows:-

### 4.1 Proposed Debt Restructuring

The Proposed Debt Restructuring is a comprehensive proposal aimed at enabling the Group to address its debt obligations in an orderly manner and to arrive at a debt structure which is sustainable. This is key to the survival and going concern of the Group, with the Debt Settlement Amount being supported by the Group's revised business plan which focuses on amongst others, mature profitable routes, reduced fleet size and restructuring of fixed cost to variable cost to support a gradual recovery of flight operations.

### 4.2 Proposed Corporate Restructuring

The Proposed Corporate Restructuring would serve to rationalise the financial position and capital base of the Group which will be more reflective of the level of operations moving forward whereby:-

(i) the credit arising from the Proposed Share Capital Reduction will significantly reduce AAX's accumulated losses. This will facilitate AAX's objective to rebuild the Group's financial position which would then enhance the credibility of the Group with various stakeholders; and

(ii) the Proposed Share Consolidation will reduce the number of AAX Shares in issue and correspondingly, increase the reference / trading prices of AAX Shares. This may reduce the volatility of the trading price for the AAX Shares.

After the Proposals have been approved, the Group will enter into new contracts, agreements and/or arrangements, based on terms to be agreed upon, with relevant parties for necessary services and supplies to support the Group's revised business plan.

The Group also intends to raise up to RM500.00 million, including making an application for a government guaranteed loan under the Danajamin PRIHATIN Guarantee Scheme and/or raising funds from equity providers.

AAX seeks the understanding and continued support from all its stakeholders for the Group to weather the challenges arising from the current crisis and enable the Group to continue its relationship with stakeholders in the aviation industry albeit at a revised scale but one that is sustainable.

## 5. EFFECTS OF THE PROPOSALS

The pro forma effects of the Proposals shall only be presented at a later stage in the Circular to the shareholders.

## 6. APPROVALS REQUIRED AND CONDITIONALITY

The Proposals are conditional upon the following being obtained:-

(a) Sanction and confirmation of the High Court of Malaya for the Proposed Debt Restructuring and Proposed Share Capital Reduction respectively;

(b) Approval of at least 75% of the total value of the Scheme Creditors present and voting at the court convened meeting to be held for the Proposed Debt Restructuring;

(c) Approval of Bursa Securities for the Proposed Share Consolidation;

(d) Approval of the shareholders of the Company at an extraordinary general meeting to be convened for the Proposed Corporate Restructuring; and

(e) Approvals / consents of any other relevant authorities / parties, if required.

The Proposed Corporate Restructuring is conditional on the Proposed Debt Restructuring but not vice versa.

The Proposed Share Capital Reduction and the Proposed Share Consolidation are inter-conditional.

The Proposals are not conditional upon any other corporate exercise undertaken or to be undertaken by the Company.

## 7. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

Save for related party debts to be settled and dealt with under the Proposed Debt Restructuring *(where the treatment of these related party debts will be based on the Proposed Debt Restructuring, same as all other Scheme Creditors)*, none of the Directors, major shareholders and/or persons connected with them have any interests, direct and indirect, in the Proposals.

## 8. DIRECTOR'S STATEMENT

The Board, after having considered all aspects of the Proposals including the rationale and effects of the Proposals, is of the opinion that the Proposals are in the best interests of the Company.

## 9. ESTIMATED TIMEFRAME FOR COMPLETION

Subject to all required approvals being obtained, the Proposals are expected to be completed by the end of the 1$^{st}$ quarter of 2021.

## 10. APPLICATION TO THE AUTHORITIES

The applications to the relevant authorities in relation to the Proposed Corporate Restructuring are expected to be made within 1 month from the date of this announcement, subject to any extension of time as may be approved by Bursa Securities, if necessary.

## 11. APPOINTMENT OF ADVISERS

The Board has appointed Mercury Securities Sdn Bhd as the Principal Adviser for the Proposed Corporate Restructuring and Messrs. Foong & Partners as the legal adviser for the Proposals.

This announcement is dated 6 October 2020.