

200601014410 (734161-K)

**Independent auditors' report to the members of
AirAsia X Berhad
(Incorporated in Malaysia)**

Report on the audit of the financial statements

Disclaimer of Opinion

We were engaged to audit the financial statements of AirAsia X Berhad, which comprise the statements of financial position as at 30 June 2021, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Company for the period then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 53 to 198.

We do not express an opinion on the accompanying financial statements of the Group and of the Company. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we are unable to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effects on the financial statements.

Basis for disclaimer of opinion

As disclosed in Note 2.1 and 46 to the financial statements, the global economy and in particular, the commercial airline industry, faces uncertainty over the expected timing of the recovery from the COVID-19 pandemic. The travel and border restrictions implemented by countries around the world have led to a significant fall in demand for international air travel which have impacted the Group's and the Company's financial position, financial performance and cash flows. The Group and the Company have reported a net loss of RM33.72 and RM33.79 billion respectively for the financial period ended 30 June 2021 and current liabilities exceeded current assets by RM34.21 billion and RM34.30 billion respectively. In addition, the Group and the Company also reported a shareholders' deficit of RM33.58 billion and RM33.66 billion respectively.

As a result of the pandemic, the Group and the Company have grounded most of the fleet since March 2020 and have deferred payment to creditors. Consequently, the Group and the Company have triggered events of default for various contracts and have made a provision for termination claims of RM25.16 billion in respect of these contracts as disclosed in Note 3(iv) and 10 to the financial statements.

These events or conditions indicate existence of material uncertainties that may cast significant doubt on the Group's and the Company's ability to continue as going concern.

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Basis for disclaimer of opinion (cont'd.)

Nevertheless, the financial statements of the Group and of the Company have been prepared on a going concern basis, the validity of which is highly dependent on the successful implementation of the following management's plans in responding to the conditions above.

1. Implementation of proposed debt restructuring exercise

The Group and the Company have grounded most of the fleet since March 2020 and has deferred payment to creditors. Consequently, the Group and the Company have triggered events of default for various contracts. On 6 October 2020, the Group and the Company announced a proposed debt restructuring exercise amounting to RM64.15 billion which involves a proposed debt settlement and waiver for the debts owing to the creditors pursuant to Section 366 of the Companies Act 2016 as further described in Note 46 to the financial statements.

In conjunction with the proposed debt restructuring exercise, the scheme creditors submitted a proof of debt (including termination claims) amounted to RM65.14 billion. The scheme creditors are creditors of the Group and the Company whose debts are to be dealt with under the proposed debt restructuring exercise.

Based on the relevant provisions in the applicable law of the relevant contracts, creditors are required to take action to mitigate their losses and to reduce their termination claims including offsetting against any deposits and prepayments wherever applicable. Accordingly, management had engaged an expert to assist in determining the provisional scheme amounts and applied significant judgement in assessing and estimating the provisional scheme amounts totalling to RM33.65 billion as further disclosed in Note 3 (iv) and Note 10 to the financial statements.

On 18 October 2021, the Group and the Company have announced that the Court Convened Meeting of creditors ("CCM") will be held on 12 November 2021. The Group and the Company require at least 75% of each class of scheme creditors in the CCM to vote favourably for the proposed debt restructuring exercise.

There is material uncertainty on the outcome of the CCM as the scheme creditors decisions are not within the Group's and the Company's control.

2. Implementation of the proposed fundraising exercise

As disclosed in Note 46 to the financial statements, on the premise that the debt restructuring is successful, the Group and the Company intend to raise funds of a minimum of RM150 million up to a maximum of RM500 million as approved conditionally by the shareholders in an Extraordinary General Meeting held on 1 June 2021.

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Basis for disclaimer of opinion (cont'd.)

2. Implementation of the proposed fundraising exercise (cont'd.)

In addition to the material uncertainty on the outcome of the CCM as disclosed above, there is also material uncertainty on the whether the Group and the Company would be able to raise the minimum funds required as the Group and the Company are still in the midst of securing the underwriter(s) for the rights issue of RM100 million and the Special Purpose Vehicle as defined in Note 46 to the financial statements has not signed the share subscription agreement of RM50 million as of to-date.

3. Implementation of the revised business plan

As disclosed in Note 46 to the financial statements, on the premise that the proposed debt restructuring exercise and proposed fundraising exercise are successfully implemented, the Group's and the Company's plan to return to profitability entails implementing a revised business plan that involves operating a leaner and more sustainable cost structure. This will involve negotiating and signing of new agreements with relevant vendors, including amongst others, aircraft manufacturer, lessors and aircraft maintenance service providers. The ability of the Group and the Company to return to profitability is dependent on the successful negotiation and continue support from all relevant vendors. The Group and the Company are currently in negotiation with the relevant vendors and have yet to finalise any arrangement as of the date of this report. Therefore, there is material uncertainty on the outcome of the negotiation with the relevant vendors.

4. Recovery of COVID-19 pandemic

As disclosed in Note 2.1 and 46 to the financial statements, the global economy, in particular the commercial airline industry, faces uncertainty over the expected timing of recovery from the COVID-19 pandemic. As at the date of this report, the Group's and the Company's fleet remains grounded apart from a limited number of cargo and charter flights and the Group and the Company will not be able to restart scheduled operations until there is an easing of travel restrictions and a gradual reopening of international borders. There is a material uncertainty on the timing of recovery of international travel.

In view of the multiple uncertainties described above, we are unable to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effects on the financial statements.

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Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the directors' report but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the 2021 annual report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the 2021 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate action.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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Responsibilities of the Directors for the financial statements (cont'd.)

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and 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 the Directors either intend to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 approved standards on auditing in Malaysia and International Standards on Auditing 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.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, 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 of the Group and of the Company, 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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Auditors' responsibilities for the audit of the financial statements (cont'd.)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also: (cont'd.)

- Conclude on the appropriateness of the Directors' 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 Group's or 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 auditors' report to the related disclosures in the financial statements of the Group and of the Company 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 auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors 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 audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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Auditors' responsibilities for the audit of the financial statements (cont'd.)

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that a subsidiary of which we have not acted as auditors, is disclosed in Note 19 to the financial statements.

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Lim Eng Hoe
No. 03403/12/2022 J
Chartered Accountant

Kuala Lumpur, Malaysia