

# **China Airlines Ltd.**

## **Ethical Corporate Management Best Practice Principles**

Amended and approved by the Shareholders' Meeting on March 25, 2016

### Article 1

These Principles are adopted to assist the Company to foster a corporate culture of ethical management and sound development, and offer a reference framework for establishing good commercial practices.

These Principles are applicable to our business groups and organizations of the Company, which comprise its subsidiaries, any foundation to which the Company's direct or indirect contribution of funds exceeds 50 percent of the total funds received, and other institutions or juridical persons which are substantially controlled by the Company ("business group").

### Article 2

When engaging in commercial activities, directors, managers, employees, and mandataries of companies or persons having substantial control over such companies ("substantial controllers") shall not directly or indirectly offer, promise to offer, request or accept any improper benefits, nor commit unethical acts, including breach of ethics, illegal acts, or breach of fiduciary duty ("unethical conduct"), for the purpose of acquiring or maintaining benefits.

Parties referred to in the preceding paragraph include civil servants, political candidates, political parties or members of political parties, state-run or privately-owned businesses or institutions, and their directors, managers, employees or substantial controllers or other stakeholders.

### Article 3

"Benefits" in these Principles means anything of value, including money, endowments, commissions, positions, services, preferential treatment or kickbacks of any type or under any name. Benefits received or given occasionally in accordance with accepted social customs and that do not adversely affect specific rights and obligations shall be excluded.

### Article 4

The Company shall comply with the Company Act, Securities and Exchange Act, Business Entity Accounting Act, Political Donations Act, Anti-Corruption Statute, Government Procurement Act, Act on Recusal of Public Servants Due to Conflicts of Interest, TWSE/GTSM listing rules, or other laws or regulations regarding commercial activities, as the underlying basic premise to facilitate ethical corporate management.

### Article 5

The Company shall abide by the operational philosophies of honesty, transparency and responsibility, base policies on the principle of good faith and establish good corporate governance and risk control and management mechanisms so as to create an operational environment conducive to sustainable development.

#### Article 6

The Company shall in their own ethical management policy clearly and thoroughly prescribe the specific ethical management practices and the programs to forestall unethical conduct ("prevention programs"), including operational procedures, guidelines, and training. The Company shall comply with relevant laws and regulations of the territory where the Company and business group operate.

#### Article 7

When establishing prevention programs, the Company shall analyze business activities within their business scope and determine which ones are at a higher risk of being involved in unethical conduct, and strengthen preventive measures for those determined to be at higher risk.

The prevention programs adopted by the Company shall, as a minimum, include preventive measures against the following:

1. Offering and acceptance of bribes.
2. Illegal political donations.
3. Improper charitable donations or sponsorship.
4. Offering or acceptance of unreasonable presents or hospitality, or other improper benefits.
5. Misappropriation of trade secrets and infringement of trademark rights, patent rights, copyrights, and other intellectual property rights.
6. Engaging in unfair competitive practices.
7. Adverse impact directly or indirectly caused to the rights or interests, health, or safety of consumers or other stakeholders in the course of research and development, procurement, manufacture, provision, or sale of products and services.

#### Article 8

The Company and respective business group shall clearly specify in their rules and external documents the ethical corporate management policies and the commitment by the board of directors and the management on rigorous and thorough implementation of such policies, and shall carry out the policies in their internal management and in their commercial activities.

#### Article 9

The Company shall engage in commercial activities in a fair and transparent manner based on the principle of ethical management.

Prior to any commercial transactions, the Company shall take into consideration the legality of their agents, suppliers, clients, or other trading counterparties and whether

any of them are involved in unethical conduct, and shall avoid any dealings with persons so involved.

When entering into contracts with their agents, suppliers, clients, or other trading counterparties, the Company shall include in such contracts terms requiring compliance with ethical corporate management policy and that in the event trading counterparties are involved in unethical conduct, the Company can, at any time, terminate or rescind the contracts.

#### Article 10

When conducting business, the Company and their directors, managers, employees, mandataries, and substantial controllers, are not to directly or indirectly offer, promise to offer, request, or accept any improper benefits in whatever form to or from clients, agents, contractors, suppliers, public servants, or other stakeholders.

#### Article 11

When directly or indirectly offering a donation to political parties or organizations or individuals participating in political activities, the Company and their directors, managers, employees, mandataries, and substantial controllers, shall comply with the Political Donations Act and their own relevant internal operational procedures, and shall not make such donations in exchange for commercial gains or business advantages.

#### Article 12

When making or offering donations and sponsorship, the Company and their directors, managers, employees, mandataries, and substantial controllers shall comply with relevant laws and regulations and internal operational procedures, and shall not surreptitiously engage in bribery.

#### Article 13

The Company and their directors, managers, employees, mandataries, and substantial controllers shall not directly or indirectly offer or accept any unreasonable presents, hospitality or other improper benefits to establish business relationships or influence commercial transactions.

#### Article 14

The Company and their directors, managers, employees, mandataries, and substantial controllers shall observe applicable laws and regulations, the Company's internal operational procedures, and contractual provisions concerning intellectual property, and is not to use, disclose, dispose, or violate intellectual property or otherwise infringe on intellectual property rights without the prior consent of the intellectual property rights holder.

#### Article 15

The Company shall engage in business activities in accordance with applicable competition laws and regulations, and is not to engaged in any unfair competitive practices.

#### Article 16

In the course of research and development, procurement, manufacture, provision, or sale of products and services, the Company and their directors, managers, employees, mandataries, and substantial controllers shall observe applicable laws and regulations and international standards to ensure the transparency of information about, and safety of, their products and services. They shall also adopt and publish a policy on the protection of the rights and interests of consumers or other stakeholders, and carry out the policy in their operations, with a view to preventing their products and services from directly or indirectly adversely affecting the rights and interests, health, and safety of consumers or other stakeholders. Where there are sufficient facts indicating that the Company's products or services are likely to pose hazard to the safety and health of consumers or other stakeholders, the Company shall, in principle, recall those products or suspend the services immediately.

#### Article 17

The directors, managers, employees, mandataries, and substantial controllers of the Company shall exercise the due care of good administrators to urge the Company to prevent unethical conduct, always review the results of the preventive measures and continually make adjustments so as to ensure thorough implementation of its ethical corporate management policies.

To achieve sound ethical corporate management, the Company's Human Resources Division is responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. To aggregate the relevant units of the Company for the implementation of case integrity management, and shall report to the board of directors on a regular basis.

#### Article 18

The Company and their directors, managers, employees, mandataries, and substantial controllers shall comply with laws and regulations and prevention programs when conducting business.

#### Article 19

The Company shall adopt policies for preventing conflicts of interest to identify, monitor, and manage risks possibly resulting from unethical conduct, and shall also offer appropriate means for directors, supervisors, managers, and other stakeholders attending or present at board meetings to voluntarily explain whether their interests would potentially conflict with those of the Company.

When a proposal at a given board of directors meeting concerns the personal interest of, or the interest of the juristic person represented by, any of the directors, managers, and other stakeholders attending or present at board meetings of the Company, the

concerned person shall state the important aspects of the relationship of interest at the board meeting. If his or her participation is likely to prejudice the interest of the Company, the concerned person is not to participate in discussion of or voting on the proposal and shall recuse him or herself from the discussion or the voting, and is not to exercise voting rights as proxy for another director. The directors shall practice self-discipline and are not to support one another in improper dealings.

The companies' directors, managers, employees, mandataries, and substantial controllers shall not take advantage of their positions or influence in the companies to obtain improper benefits for themselves, their spouses, parents, children or any other person.

#### Article 20

The Company shall establish effective accounting systems and internal control systems for business activities possibly at a higher risk of being involved in unethical conduct, not have under-the-table accounts or keep secret accounts, and conduct reviews regularly so as to ensure that the design and enforcement of the systems are effective.

The internal audit unit of the Company shall periodically examine the Company's compliance with the foregoing systems and prepare audit reports and submit the same to the board of directors. The internal audit unit can engage a certified public accountant to carry out the audit, and can engage specialists to assist if necessary.

#### Article 21

The Company shall establish operational procedures and guidelines in accordance with Article 6 hereof to guide directors, managers, employees, and substantial controllers on how to conduct business. The procedures and guidelines should encompass, as a minimum, the following matters:

1. Standards for determining whether improper benefits have been offered or accepted.
2. Procedures for offering legitimate political donations.
3. Procedures and standard rates for offering charitable donations or sponsorship.
4. Rules for avoiding work-related conflicts of interests and how they should be reported and handled.
5. Rules for keeping confidential trade secrets and sensitive business information obtained in the ordinary course of business.
6. Regulations and procedures for dealing with suppliers, clients and business transaction counterparties suspected of unethical conduct.
7. Procedures for handling violations of these Principles.
8. Disciplinary measures for offenders.

#### Article 22

The Company shall periodically organize training and awareness programs for directors, supervisors, managers, employees, mandataries, and substantial controllers and invite the Company's commercial transaction counterparties so they understand the Company's resolve to implement ethical corporate management, related policies, prevention programs and the consequences of engaging in unethical conduct. The

Company shall apply the policies of ethical corporate management when creating its employee performance appraisal system and human resource policies to establish a clear and effective reward and discipline system.

#### Article 23

The Company shall adopt a concrete whistle-blowing system and scrupulously operate the system. The whistle-blowing system shall include, as a minimum, the following:

1. An independent mailbox or hotline either internally established and publicly announced or provided by an independent external institution, to allow individuals inside and outside the Company to submit reports.
2. Dedicated personnel or unit appointed to manage the whistle-blowing system. Any tip involving a director or senior manager shall be reported to independent directors or supervisors. Categories of reported misconduct shall be delineated and standard operating procedures for investigations into each category shall be adopted.
3. Documentation of case acceptance, investigation details, investigation results, and relevant documents.
4. Confidentiality of the identity of whistle-blowers and the content of reported cases.
5. Measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing.

Upon investigation, in the event material misconduct or likelihood of material impairment to the Company comes to their awareness, the dedicated personnel or unit handling the whistle-blowing system shall immediately prepare a report and notify the independent directors or supervisors in written form.

#### Article 24

The Company shall adopt and publish a well-defined disciplinary and appeal system for handling violations of the ethical corporate management rules.

In the event of serious breaches of fiduciary conduct by Company personnel, said personnel shall be dismissed in accordance with relevant laws and regulations or by corporate governance rules or dismissal.

#### Article 25

The Company shall disclose the measures taken for implementing ethical corporate management, the status of the implementation, and the effectiveness of its implementation on their company websites, annual reports, and prospectuses and shall disclose their ethical corporate management best practice principles on the Market Observation Post System.

#### Article 26

The Company shall at all times monitor the development of relevant local and international regulations concerning ethical corporate management and encourage their directors, supervisors, managers, and employees to make suggestions, which will serve as a basis upon which the adopted ethical corporate management policies and

measures taken will be reviewed and improved with a view to achieving better implementation of ethical management.

#### Article 27

The ethical corporate management best practice principles shall be implemented after they are approved by the board of directors and shall be sent to the supervisors and reported at a shareholders' meeting. The same procedure shall be followed when principles are amended.

When the ethical corporate management best practice principles are submitted for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting. An independent director that cannot attend the board meeting in person to express objection or reservations shall provide a written opinion before the board meeting, unless there is some legitimate reason to do otherwise, and the opinion shall be specified in the minutes of the board of directors meeting.