

[Translation]

Financial Accounting Standards Foundation member



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Company name: KI Holdings Co., Ltd.  
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### **Notice of Resolution of Lawsuit through Settlement**

We are pleased to announce that a settlement agreement between China Airlines Ltd. (“CAL”) and KI Holdings was executed on January 18, 2012, as set forth below with respect to the lawsuit filed by CAL against KI Holdings on June 14, 2011 (the “Lawsuit”).

#### 1. Opposing Party to the Lawsuit

- (1) Trade Name: China Airlines Ltd.
- (2) Address: No. 1, HangZhan S. Rd., Dayuan  
Township, Taoyuan Country, Taiwan, R.O.C.
- (3) Representative: Chang, Chia-Juch, Representative Director and Chairman

#### 2. Circumstances Leading to Settlement of the Lawsuit

On June 14, 2011, CAL filed the Lawsuit against KI Holdings seeking payment of 81,734,606.22 U.S. dollars (approximately 6.68 billion Japanese yen exchanged at the rate of 1 U.S. dollar = 81.73 Japanese yen, the TTS rate quoted by The Bank of Tokyo-Mitsubishi UFJ, Ltd. at 10:26 a.m., on June 30, 2011), on the grounds that the delivery of airplane seats scheduled to be delivered by KI Holdings to CAL was delayed.

Upon review of the appropriateness of CAL's claim, KI Holdings entered into a settlement agreement (the “Settlement Agreement”) with CAL on January 18, 2012, the substance of which is set forth in Section 3 below.

After taking into account the increasing litigation costs and the burden on its human resources, especially the negative effects on its ability to support airline customers with respect to their compliance with airworthiness directives due to the pending and ever prolonging Lawsuit, KI Holdings concluded that it is in the best interest of the company to enter into the Settlement Agreement.

KI Holdings will continue to consult and cooperate with CAL in order to respond to the airworthiness directives issued to CAL by the relevant civil aviation bureau.

3. Summary of the Settlement Agreement

- (1) KI Holdings will pay CAL three million U.S. dollars (233 million Japanese yen exchanged at the rate of 1 U.S. dollar = 77.79 Japanese yen, the TTS rate quoted by The Bank of Tokyo-Mitsubishi UFJ, Ltd. at 10:26 a.m., on January 18, 2012). (Note: No lost profits, which CAL has originally insisted on, were included in the calculation of the settlement amount.)
- (2) Within two business days from the day following the day when CAL confirms the receipt of the payment of the settlement amount set forth in item (1) above from KI Holdings, CAL will withdraw the Lawsuit and any actions relating to the Lawsuit and waive any other related claims.

4. Future Prospects

KI Holdings has already set aside reserves to cover the entire settlement amount payable in this settlement. Therefore, this settlement will have no impact on the company's business results.

End.