

MEMORANDUM

OF UNDERSTANDING CONCERNING RECIPROCAL EXEMPTION WITH RESPECT TO CERTAIN TAXES ON AIRLINES

BETWEEN

TAIPEI AIRLINES ASSOCIATION AND AIR MACAU COMPANY LIMITED

Taipei Airlines Association and Air Macau Company Limited,

Noting that the responsible authorities in Taiwan and in Macau intend to provide reciprocal relief from taxation to airlines resident in Taiwan and in Macau, consistent with the principle of reciprocal benefit, confirm the following understanding on how the responsible authorities in Taiwan and in Macau will implement the above noted intention:

I. DEFINITIONS

For the purpose of this Memorandum of Understanding, unless the context otherwise requires:

1. The term "traffic" or "air traffic" means any transport by aircraft operated by a nominated airline, but in respect of a nominated airline resident in Taiwan excludes any voyage for which the principle purpose is to transport passengers, cargo or mail between places within Macau, and in respect of a nominated airline resident in Macau excludes any voyage for which the main purpose is to transport passengers, cargo or mail between places within Taiwan;
2. The term "airline" means a nominated enterprise carrying on the business of transporting passengers, cargo or mail by aircraft; and
3. The term "income, profits or revenue derived from air traffic" means all income, profits or revenue from the operation of aircraft in air traffic, including income, profits or revenue that are incidental to the operation of aircraft in air traffic, from the charter or rental of aircraft, the rental of air cargo containers and related equipment and the maintenance of air cargo containers.

II. COVERAGE

1. The existing taxes to which this Memorandum of Understanding will apply are:
 - (a). in Taiwan, the profit seeking enterprise income tax and the business tax;

(b) in Macau, the complementary tax (Imposto Complementar) and the stamp tax (Imposto De Selo).

2. This Memorandum of Understanding will be revised if any identical or substantially similar taxes which are imposed after the date of signature of this Memorandum of Understanding in addition to, or in place of, the existing taxes.
3. In Taiwan, the airlines resident in Macau will be exempt from tax on the income, profits or revenue derived from air traffic earned in Taiwan. If an airline resident in Macau, is registered for business tax, the air transportation services supplied by the registered airline will be subject to a zero-rating business tax (taxed at the rate of zero per cent), and a credit is available for business tax paid on goods and services purchased for business use. However, goods and services may be purchased by the registered airline on a zero-rated basis, provided the requirements of Article 7 to the Business Tax Law are met. If the airline is not registered for business tax, the acquisition of goods and services by the airline may still be on a zero-rated basis, provided the requirements of the above mentioned Article are met;
4. In Macau, the airlines resident in Taiwan will be exempt from tax on the income, profits or revenue derived from air traffic earned in Macau;
5. The provisions of the proceeding paragraphs will also apply to income, profits or revenue from the participation in an airline pool or a joint airline business.

III. NOTIFICATION AND CONSULTATIONS

1. At the end of each calendar year, Taipei Airlines Association and Air Macau Company Limited will notify each other of any significant changes in the relevant tax laws which might affect reciprocal exemptions and the principle reciprocal benefits.
2. Consultation may be requested in writing at any time by Taipei Airlines Association or Air Macau Company Limited for the purpose of amendment to the present Memorandum of Understanding or for its application or its interpretation. Such consultation will begin within 60 days from the date of receipt of any such request and decisions will be by mutual consent.

IV. ENTRY INTO FORCE

1. This Memorandum of Understanding (MOU) will enter into force on the later of the dates on which the respective contracting parties may notify each other in

writing that this MOU has been approved by their respective authorities and will have effect with respect to taxable income, profits or revenue derived from air traffic on or after 1 January 1996.

2. This Memorandum of Understanding shall continue in effect until 30 November 2000 unless sooner terminated as next Article.

V. TERMINATION

Taipei Airlines Association or Air Macau Company Limited may terminate this Memorandum of Understanding by giving written notice of termination to the other on or before 30 June in any year for this Memorandum of Understanding to cease to have effect as of 1 January of the following calendar year.

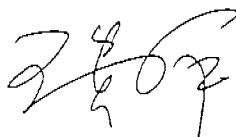
IN WITNESS THEREOF the undersigned, being duly authorized, have signed this Memorandum of Understanding in duplicate in the English language at Macau this eighteenth day of December, 1998.

TAIPEI AIRLINES ASSOCIATION

AIR MACAU COMPANY LIMITED



FRANK HSU
CHAIRMAN OF THE BOARD



WANG GUIXIANG
CHAIRMAN OF THE BOARD OF
DIRECTORS