CIRCULAR DATED 30 AUGUST 2002

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, accountant, solicitor or other professional adviser immediately.

If you have sold all your shares in China Aviation Oil (Singapore) Corporation Ltd, you should immediately send this Circular and the accompanying Proxy Form to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for onward transmission to the purchaser.

The Singapore Exchange Securities Trading Limited assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Circular.

CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

CIRCULAR TO SHAREHOLDERS

in relation to

THE ACQUISITION OF A 5% EQUITY INTEREST IN COMPANIA LOGISTICA DE HIDROCARBUROS CLH, S.A. ("CLH") COMPRISING 3,502,923 REGISTERED VOTING SHARES OF CLASS C OF PAR VALUE €1.20 EACH FOR AN AGGREGATE CONSIDERATION OF UP TO S$116.2 MILLION

IMPORTANT DATES:

Last Date and Time for Lodgment of Proxy Form	:	21 September 2002 at 10:30 am
Date and Time of Extraordinary General Meeting	:	23 September 2002 at 10:30 am
Place of Extraordinary General Meeting	:	Meeting Room 307, Level 3 Suntec Singapore International Convention & Exhibition Centre 1 Raffles Boulevard Suntec City Singapore 039593

CONTENTS

DEFINITIONS

"Acquisition"	:	The acquisition of the Sale Shares by the Company from the Vendors
"CLH"	:	Compania Logistica De Hidrocarburos CLH, S.A., a Spanish limited company, with its registered office located in Madrid, at Calle Capitan Haya No. 41, incorporated with perpetual succession by public notarial deed executed before the Notary of Madrid, Mr Anastasio Herrero Muro dated 24 October 1927
"Company"	:	China Aviation Oil (Singapore) Corporation Ltd
"Directors"	:	Directors of the Company on the date of this Circular
"EGM"	:	The extraordinary general meeting of the Shareholders, notice of which is set out on page 21 of this Circular
"Financial Year"	:	The period of 12 months at the end of which period the balance of the accounts of the Company is prepared and audited for the purpose of laying the same before an annual general meeting of the Company
"Group"	:	The Company and its subsidiaries
"Listing Manual"	:	The Listing Manual of the SGX-ST, as the same may be amended, varied or supplemented from time to time
"MOU"	:	The Memorandum of Understanding signed on 30 April 2002 between the Company and the Vendors
"Month"	:	Calendar month
"NTA"		Net Tangible Assets
"Per cent. or %"	:	Percentage or per centum
"Purchase and Sale Agreement"	:	The definitive sale and purchase agreement signed on 31 July 2002 between the Company and the Vendors
"Sale Shares"	:	3,502,923 issued and fully paid up registered voting shares of Class C of par value €1.20 each of CLH
"SGX-ST"	:	The Singapore Exchange Securities Trading Limited
"Shareholders"	:	Shareholders of the Company as shown in the Register of Members of the Company and the Register maintained by The Central Depository (Pte) Ltd
"Vendors"	:	Repsol-YPF S.A., Petroleos Del Norte S.A., Compania Espanola De Petroleos S.A., BP Oil Espana S.A.
"S$"	:	Singapore dollars
"€"	:	Euro

Words importing the singular shall, where applicable, include the plural and vice versa and words importing one gender shall, where applicable, include the other genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or any statutory modification thereof and used in this Circular shall have the meaning assigned to it under the Companies Act.

All financial information of CLH referred to in this Circular is made by reference to the financial statements of CLH prepared in accordance with generally accepted accounting principles in Spain. Certain accounting practices applied by CLH that conform with generally accepted accounting principles in Spain may differ from the Statements of Accounting Standard in Singapore.

Financial information extracted from the financial statements of CLH as at 31 December 1999, 2000, 2001, and figures expressed in Euro which make reference to the period up to 31 December 2001 in this Circular, have been converted at the exchange rate as at 31 December 2001, being S$1.64/€1. Other figures expressed in Euro have been converted by applying an exchange rate S$1.75/€1.

All timing referred to in this Circular is made by reference to Singapore time.

China Aviation Oil (Singapore) Corporation Ltd

(Incorporated in the Republic of Singapore)

Directors:

Jia Changbin (Chairman)
Chen Jiulin (Managing Director)
Gao Renwen
Zhang Junru
Bao Xiaoyan
Zhang Yizhou
Jerry Lee Kian Eng
Tan Hui Boon
Yan Xuetong

Registered Office:

8 Temasek Boulevard
#31-02 Suntec Tower Three
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Date: 30 August 2002

To: The Shareholders of
China Aviation Oil (Singapore) Corporation Ltd

Dear Sir/Madam

1. INTRODUCTION

1.1 On 9 May 2002, we announced that we signed a Memorandum of Understanding (the "MOU") on 30 April 2002 with the Vendors for the sale and purchase of 3,502,293 Class C shares (the "Sale Shares") representing 5% of the issued and paid up capital of Compania Logistica De Hidrocarburos CLH, S.A. ("CLH"). The consideration for the Sale Shares is €61.9 million (equivalent to S$108.4 million). Additional consideration of up to €4.4 million (approximately S$7.8 million) is also payable upon the occurrence of certain events, details of which are set out in paragraph 3. We were also granted a call option to acquire additional 3,502,293 Class C shares representing 5% of the issued and paid up capital of CLH from the Vendors (the "Call Option"). The Company will proceed with the purchase of the Sale Shares but has no intention to exercise the Call Option at this point in time.

1.2 As the Acquisition constitutes a "Major Transaction" under Rule 1013 of the Listing Manual, the Board of Directors of the Company proposes to seek the approval of Shareholders at an extraordinary general meeting ("EGM") of the Company to be held on 23 September 2002 for the purchase of the Sale Shares.

1.3 The purpose of this Circular is to explain the reasons for, and to provide Shareholders with information relating to, the purchase of the Sale Shares to be tabled at the EGM.

2. BACKGROUND

2.1 Background information on our business:

Our core business is in the procurement of jet fuel from overseas markets for distribution to the People's Republic of China's ("PRC") civil aviation industry through our parent company, China Aviation Oil Supply Corporation ("CAOSC"), its subsidiaries and associated companies. CAOSC is a large state-owned enterprise in the PRC. Its businesses include the construction of jet fuel infrastructure (for example, pipelines and storage tanks), the procurement of jet fuel supply equipment, the supply of jet fuel (including jet fuel purchase, transportation, storage and delivery into aircrafts) to airports in the PRC, and the provision of refuelling services to aeroplanes in the PRC airports. CAOSC owns oil storage terminals, dedicated jetties, railways and pipelines infrastructure to support its business operations. CAOSC is the sole entity authorised by the PRC government to allocate the import quota for the import of jet fuel into the PRC. In January 2001, CAOSC directed all its subsidiaries and associated companies to import jet fuel solely from our Company.

Besides jet fuel procurement, we are also engaged in the trading of petroleum products such as jet fuel, gas oil, fuel oil, crude oil and plastics and oil derivatives by capitalising on our jet fuel business and market opportunities.

In the course of our procurement activities, we also provide value-added services to our customers and end-users. These services include assurance of prompt delivery of commodities, offer of lower shipping, storage and transportation costs, offer of lower fuel cost through bulk purchases, provision of market information and advice for inventory planning and risk management, and assurance of consistent supply of high quality fuels.

2.2 Requirements under the Listing Manual

2.2.1 Under Chapter 10 of the Listing Manual, where a listed company or its subsidiaries enter into a transaction to acquire assets, and the transaction is not in its ordinary course of business or of a revenue nature, then such transaction may require shareholders' approval and/or an immediate announcement depending on the size of the relative figures computed on the following bases (the "Relative Figures"):

(a) the net asset value of the assets disposed of, compared with the group's net asset value. This basis is not applicable to an acquisition of assets.

(b) the operating profit before income tax (as defined in item 4g of Appendix 7.2 of the Listing Manual) attributable to the assets acquired or disposed of, compared with the group's operating profit before income tax (as defined in item 4g of Appendix 7.2 of the Listing Manual).

(c) the aggregate value of the consideration given or received, compared with the group's market capitalisation.

(d) the number of equity securities issued by the group as consideration for an acquisition, compared with the number of equity securities previously in issue.

2.2.2 Rule 1013 of the Listing Manual stipulates that where the Relative Figures exceed 20%, the transaction has to be announced immediately after the terms have been agreed and such transaction must be made conditional on approval by shareholders at a general meeting and a circular containing prescribed details must be sent to all shareholders.

2.3 Comparison of Relative Figures under Rule 1010 of the Listing Manual

2.3.1 The operating profit before income tax (as defined in item 4g of Appendix 7.2 of the Listing Manual) attributable to the Sale Shares, compared with the Group's operating profit before income tax (as defined in item 4g of Appendix 7.2 of the Listing Manual):

	S$'000	**Relative figure of (1) and (2)(%)**
Operating profit before income tax attributable to Sale Shares (1)	13,686	30.77
Group's operating profit before income tax (2)	44,478	

2.3.2 The aggregate value of the consideration given compared with the Group's market capitalisation:

	S$'000	**Relative figure of (3) and (4)(%)**
Aggregate consideration for the Sale Shares[1] (3)	116,157	33.22
Group's market capitalisation[2] (4)	349,632	

On the basis of the figures described, the provisions under Rule 1013 of the Listing Manual apply and we are required to convene a general meeting to seek Shareholders' approval for the Acquisition.

1 The aggregate consideration for the Sale Shares includes the additional consideration of up to €4.4 million (approximately S$7.8 million) payable by the Company pursuant to the Purchase and Sale Agreement.

2 The Group's market capitalisation was determined based on the weighted average price of the shares of the Group traded on 30 July 2002, being the market day preceding the date of the execution of the Purchase and Sale Agreement.

3. THE ACQUISITION

3.1 Terms of the Acquisition

The MOU was entered into between the Vendors and ourselves on 30 April 2002 for the sale and purchase of 5% of the issued and paid up capital of CLH for an approximate consideration of €61.9 million (approximately S$108.4 million). Additional consideration for the Sale Shares of up to €1.8 million (S$3.2 million) is payable upon the achievement of certain performance targets by CLH in each of the financial years up to the financial year ended 2005.

The target volume, the additional consideration payable and the payment due dates for each year are as follows:

Financial Year Ending 31 December	Volume[(1)] Target (m^3)	Minimum Volume[(1)] (m^3)	Adjustment Factor (€ per m^3)	Additional Consideration €	Payment Due Date
2002	40,301,000	38,341,000	0.059841	Up to 117,289	31 March 2003
2003	41,872,000	38,781,000	0.064642	Up to 199,808	31 March 2004
2004	43,282,000	40,279,000	0.069813	Up to 209,649	31 March 2005
2005	44,765,000	41,868,000	0.075398	Up to 218,429	31 March 2006

If CLH achieves the volume target in the specific financial year, the full additional consideration in that financial year will be payable. If the actual volume achieved is less than the volume target but more than minimum volume for the year, the additional consideration shall be calculated based on the difference between the actual volume achieved and the minimum volume multiplied by the adjustment factor for the said year. If the actual volume is less than the minimum volume, no additional consideration is payable.

In addition, if the following cumulative volume targets are achieved, additional consideration (in addition to those stated above) shall be payable as follows:-

Cumulative Volume[1] Target	Additional Consideration €	Payment Due Date
87,819,000 m^3 for the financial years ending 31 December 2002, 2003 and 2004	517,179	31 March 2005
119,154,000 m^3 for the financial years ending 31 December 2002, 2003, 2004 and 2005	558,554	31 March 2006

A further consideration of €2.6 million (approximately S$4.6 million) is payable to the Vendors provided within three years after the Completion Date of the Sale Shares upon the completion of the corporate restructuring of CLH by the Company and the Vendors.

The consideration for the Sale Shares was reached on a willing seller-willing buyer basis and is to be satisfied in cash which will be funded with proceeds from our initial public offering of S$15.0 million, internal funds of S$30.4 million and bank borrowings of S$63.0 million. The additional consideration will be funded by internal sources of funds when due. Prior to our acquisition of the Sale Shares, we have no direct or indirect equity interest in CLH.

For the purposes of financing the purchase of the Sale Shares, the Company is still in the process of negotiating the terms of the term loan facility with several banks.

Pending the finalisation and draw down of the loan facility which is expected to take place in the next few months, the Company intends to use its own internal resources to finance the Acquisition.

The formal execution of the Purchase and Sale Agreement for the Sale Shares took place on 31 July 2002. Upon completion of the Acquisition, we shall be entitled to all benefits accruing to the Sale Shares as from 1 January 2002. On 25 June 2002, an interim dividend of €0.40 (S$0.70) per share was declared. The purchase consideration payable by us for the Sale Shares takes into consideration the interim dividend due to us.

1 *Volume refers to delivery of light petroleum products (including gasoline, diesel and kerosene) made by CLH's customers that passes through its logistics system.*

3.2 Conditions Subsequent

It is a condition subsequent of the Purchase and Sale Agreement that the acquisition of the Sale Shares is subject to shareholders' approval. However, it is a commercial requirement that upon the execution of the Purchase and Sale Agreement, the Company will pay the cash consideration to the Vendors and the Sale Shares will be transferred to the Company. In the event that the resolution to approve the Acquisition is not passed by the Shareholders by 30 September 2002, the Company will terminate the Purchase and Sale Agreement and the Sale Shares will be returned to the Vendors in exchange for the cash consideration after deducting the €1 million (S$1.8 million) guarantee provided by the Company to the Vendors for the Company's failure to complete the Acquisition pursuant to the terms of the Purchase and Sale Agreement.

The Spanish Act 55/1999 imposes a restriction relating to investments made by any company directly or indirectly controlled by a Spanish or foreign governmental or public body which exceeds 3% of the capital in Spanish state companies in the energy sector (which is the case of CLH). On 15 May 2002, the Company made an application to the Spanish Secretary of State for Economy, Energy and Small and Medium Size Businesses for the recognition of its voting rights in CLH in respect of the Sale Shares. The application is required for the Company to exercise its voting rights in respect of the Sale Shares as the Company's substantial shareholder, CAOSC, is a government body. In the event that a resolution from the Spanish Council of Ministers is not obtained by 31 December 2002, the Company may terminate the Purchase and Sale Agreement and transfer the Sale Shares back to the Vendors in return for the consideration it has paid out without interest or penalty.

4. INFORMATION ON CLH

The following information on CLH is based on the information memorandum dated June 2001 provided by CLH and the audited accounts of CLH for FY2001:

4.1 Business of CLH

CLH is Spain's leading logistics company in oil products, being the main carrier and owner of the largest oil pipeline network and storage facilities in the Iberian Peninsula and the Balearic Islands.

CLH's logistics system is unique in Europe: its main advantage is that it integrates storage and transport of oil products coupled with the large volume operated and the breadth of its network enables CLH to optimise deliveries and offer a high quality comprehensive logistics service throughout the Iberian Peninsula and the Balearic islands.

CLH's core business is oil products logistics including storage, transport and distribution services on land and at sea. Its characteristic and differentiating feature vis-à-vis other logistics operators is that it provides integrated transport and storage services handling third-party products.

It also carries on other activities that complement the basic logistics operations: fuel storage and servicing into planes (via its subsidiary, CLH Aviación, S.A. ("CLH Aviación")), bunkering and capillary distribution via tanker lorries. Lastly, it is also involved in a number of secondary activities: fuel pump and equipment maintenance, R&D and lubricant blending and packaging.

The Article 1 of Royal Decree-Law 6/2000, on Urgent Measures to Intensify Competition in the Goods and Services Markets, provides for the opening up of the ownership of CLH, restricting the direct or indirect percentages of ownership of its shareholders to 25% of the capital stock or of the voting rights and the total direct and indirect holdings of these shareholders with refining capacity in Spain to 45%.

Within the framework of the plan titled "Action Plan to Broaden the Shareholder Base of CLH", approved by the Spanish Government's Delegated Commission for Economic Affairs on 29 March 2002, the Vendors are interested in divesting their existing shareholding in CLH.

CLH's share capital consists of 70,058,450 shares of €1.20 par value each, with each share carrying the same financial, voting and other rights. The shares are divided into three classes: Class A comprising 90,000 shares, Class C comprising 68,279,401 shares and Class D comprising 1,689,049 shares. There is no limit on the percentage of shares to be issued by CLH but each increase in capital has to be approved by the existing shareholders of CLH and the existing shareholders of CLH have pre-emption rights.

CLH's Class A and D shares which represent 2.54% of the total share capital, are listed on the Madrid Stock Exchange. The closing price of these shares as at 23 August 2002 was €28.00 (approximately S$49.00) per share. As only a small percentage of CLH's shares are listed, the Company will be acquiring Class C shares that are not listed.

4.2 <u>The Strengths of CLH</u>

4.2.1 Advanced Technology

CLH is known for its quality and advanced technology in the management of oil pipelines and oil product storage and loading facilities. CLH has provided technical assistance to other Spanish and foreign companies and has been a model for the implementation of new management techniques. Efficiency leadership in the oil products logistics business has been achieved as a result of :

(a) Technology Proficiency

CLH has an advanced dispatching system that allows it to manage the network of pipelines from the headquarters in Madrid. In addition, all storage facilities are automated, function homogeneously and do not need high staffing levels.

(b) Strong capital expenditure

In recent years CLH has pursued an ambitious capital expenditure programme, primarily focused on expanding storage capacity and upgrading facilities and resources. In FY2000 and FY2001, the net additions in tangible fixed assets (less disposals) amounted to €51.4 million (S$84.3 million) and €67.2 million (S$110.2 million) respectively. This has enabled it to handle the growth in demand.

(c) Specialisation and continuous improvement

CLH's volume and productivity have been rising and CLH is optimising its use of its systems through the use of automation and technology so as to allow it to make profitable use of its extensive network of storage facilities. For example, CLH's central dispatching system allows remote operation and monitoring of its equipment throughout its entire pipeline network operations from its Madrid headquarters.

4.2.2 Healthy Balance Sheet

The following financial information has been extracted from the audited consolidated balance sheet of CLH prepared in accordance with generally accepted accounting principles in Spain for the financial years ended 31 December 1999, 2000 and 2001.

	FY1999 Euro'000	**FY2000 Euro'000**	**FY2001 Euro'000**
Fixed and Other Non-current Assets			
Fixed assets	619,655	623,914	642,565
Long term financial investments	18,132	21,571	13,858
Intangible assets	307	308	308
Current assets	1,111,368	993,907	925,590
Current liabilities	927,806	909,516	1,019,051
Net current assets/(liabilities)	183,562	84,391	(93,461)
Non-current liabilities			
Deferred revenue	20,194	18,192	13,539
Provision for contingencies and expenses	185,821	114,969	113,800
Long term debt	1,983	1,267	183,758
	613,658	595,756	252,173

Shareholders' equity			
Share capital	84,070	84,070	84,070
Revaluation reserves	119,932	119,933	119,933
Reserves	409,656	391,753	48,170
	613,658	595,756	252,173
NTA	613,351	595,448	251,865

CLH has a healthy balance sheet due to the growth of its business and its deep capacity to generate cash flow which allows it to carry out sizeable capital spending. The net tangible assets ("NTA") of CLH for the past three financial years ended 31 December 1999, 2000 and 2001 were €613.4 million (approximately S$1.0 billion), €595.4 million (approximately S$976.5 million) and €251.9 million (approximately S$413.1 million) respectively. The significant reduction in NTA as at 31 December 2001 was mainly due to the payment of the special dividend of €342.9 million (approximately S$562.4 million) to its shareholders in that year. Reserves were generated during the years prior to FY2001 and the special dividend corresponded to unpaid dividends to the existing shareholders of CLH in FY2001. The special dividend was partially funded by borrowings from financial institutions and hence the increase in long term debt from €1.3 million (approximately S$2.1 million) to €183.8 million (S$301.4 million) in FY2001.

The negative working capital in FY2001 was due to a decrease in current assets as a result of disposals of short-term investment securities and increase in accrued taxes payable.

On the assumption that the Acquisition was completed on 31 December 2001, 5% of the NTA of CLH would be equivalent to €12.6 million (approximately S$20.7 million).

4.2.3 Profitable Business

The following financial information has been extracted from the audited consolidated profit and loss accounts of CLH prepared in accordance with generally accepted accounting principles in Spain for the financial years ended 31 December 1999, 2000 and 2001.

	FY1999 Euro'000	**FY2000 Euro'000**	**FY2001 Euro'000**
Turnover	478,682	516,779	540,878
Operating profit	154,003	175,976	166,899
Extraordinary income	28,145	6,976	48,643
Profit before tax	182,148	182,952	215,542
Income tax	(56,880)	(59,366)	(52,380)
Profit after tax	125,268	123,586	163,162
EPS[1] (Euro)	1.79	1.76	2.33

(1) EPS is computed based on profit after tax and total share capital of 70,058,450 shares

CLH's turnover is derived mainly from the provision of logistics services, sales of petroleum products and chartering of its tanker fleet. It increased by 8.0% and 4.7% in FY2000 and FY2001 respectively. The breakdown of turnover is as follows:

	FY1999 Euro'000		**FY2000 Euro'000**		**FY2001 Euro'000**	
Revenue from logistics services	373,818	78%	388,548	75%	401,301	74%
Sales of oil products	18,271	4%	33,801	7%	47,724	9%
Charter income	27,460	6%	35,640	7%	33,092	6%
Others	59,134	12%	58,790	11%	58,761	11%
	478,682	100%	516,779	100%	540,878	100%

The increased in extraordinary income in FY2001 was due mainly to gains on disposals of fixed assets.

CLH has been profitable and it registered a net profit after extraordinary items and taxation of €125.3 million (approximately S$205.4 million) for the financial year ended 31 December 1999, €123.6 million (approximately S$202.7 million) for the financial year ended 31 December 2000 and €163.2 million (approximately S$267.6 million) for the financial year ended 31 December 2001. Accordingly, the earnings per share ("EPS") of CLH were €1.79 (approximately S$2.94), €1.76 (approximately S$2.89) and €2.33 (approximately S$3.82) for FY1999, FY2000 and FY2001 respectively.

On the assumption that the Acquisition was completed on 31 December 2001, 5% of CLH's operating profit before tax would be equivalent to €8.3 million (approximately S$13.7 million).

The following financial information has been extracted from the audited consolidated statements of changes in financial position of CLH prepared in accordance with generally accepted accounting principles in Spain as at 31 December 2000 and 2001.

	FY2000 Euro'000	**FY2001 Euro'000**
Application of funds		
Fixed assets additions	86,468	96,507
Dividends	141,478	506,745
Repayment or transfer to short term of long term debt	715	388
Provision for contigencies and expenses	94,449	20,442
Total funds applied	323,110	624,082
Sources of funds		
Funds obtained from operations	207,205	151,786
Capital subsidies	3,390	-
Fixed asset disposals	31,643	85,808
Long term debt	-	182,879
Reduction in working capital	80,872	203,609
Total funds obtained	323,110	624,082

4.2.4 High Dividend Payment

CLH has historically maintained a high dividend yield paying a significant percentage of its earnings. For the past three financial years from FY1999 to FY2001, CLH declared 106%, 97% and 104% of its earnings as dividends respectively. In addition, reserves were generated during the years prior to FY2001 and a special dividend of €342.9 million (approximately S$562.4 million) was paid to the shareholders of CLH in FY2001.

4.3 Risk Factors

There are inherent risks associated with the acquisition of a minority stake in CLH. There are also other risks in relation to the business of CLH which could materially affect the Group's business, operating conditions or financial results. Among these risks are:

Non-controlling interest in CLH

Following the Acquisition, we will only hold a 5% equity interest in CLH, which will entitle us to appoint one director to the board of CLH, but we will have no management representation in CLH. We will have limited ability to protect our position as a minority shareholder in CLH. The other shareholders of CLH may have economic or business interests which are inconsistent with our objectives or may take action in a manner contrary to our objectives which may adversely affect our investment in CLH.

Concentration of Investments

Our investment in CLH will be our sole investment outside Singapore and the PRC. Our acquisition of a 5% equity interest in CLH (based on the aggregate consideration of approximately S$116.2 million) represents 79.2% of the shareholders' equity of our Group as at 31 December 2001 and we may be exposed to fluctuations in the value of our investment in CLH arising from adverse business, economic or other conditions affecting CLH, Spain or the oil products logistics sector in Spain. Accordingly, our investment in CLH can be greatly affected by any unfavourable business conditions affecting CLH, Spain and the oil products logistics sector in Spain.

Reliance on management of CLH

The return on our investment in CLH is dependent on the financial performance of CLH. We will not in general be actively involved with the day-to-day management of CLH and hence rely on the management of CLH for the success of the financial performance of CLH. Given the importance of management in CLH, the ability of CLH to attract and retain key management is critical to its growth and performance. The loss of any key management of CLH may adversely affect its financial performance which will have a material impact on our financial results.

Failure to compete effectively will adversely affect CLH's profitability and prospects

At the end of FY2000, CLH had a market share of more than 83% of the petrol and gas oil logistics sector. CLH's network of oil pipelines and storage facilities enables it to provide logistics services throughout mainland Spain and the Balearic Islands. If CLH does not compete effectively with its competitors, for example, as regards to price and services, its profitability and prospects may be adversely affected. We cannot assure you that CLH will be able to compete successfully in future against its existing or potential competitors or that its business, financial condition and results of operation will not be adversely affected by increased competition. As a result, CLH may face greater competition which may affect its sales and profits and may cause CLH to gradually lose its dominant share in the Spanish oil products logistics sector which will have a material impact on our financial results.

Contingent Liabilities of CLH

There are several on-going disputes between CLH and the taxation authorities in Spain. The aggregate amount in issue is estimated to be €114.7 million (approximately S$188.0 million) and as at 31 December 2001, CLH has provided €71.9 million (approximately S$117.9 million) or 63% of this contingent liability. There can be no assurance that the disputes will be resolved in favour of CLH or if the provisions for such contingent liabilities will be sufficient and such events would have an adverse effect on the financial condition of CLH.

Operating Risk Insurance

The business of CLH could be adversely affected by events such as breakdown of equipment, power failures, labour disputes, fire, explosions, weather, natural disasters, industrial accidents or the need to comply with government directives concerning matters such as environmental protection. The main policies taken out by CLH cover general civil liability, operational liability, material damages, loss of profits due a total or partial interruption of the business, ships, goods (freight), delay due to strikes (mutual insurance), vehicles and civil liability insurance for directors and executives. Under Spanish Law, insurance policies do not cover typical “Force Majeure” events like earthquakes, floods and wars.

As at the date of this Circular, CLH is involved in a large number of court cases. Given the scope and volume of CLH’s activities, it is our Spanish Counsel’s understanding that the number of cases is not excessive and that the majority of such cases are covered by insurance maintained by CLH. However, there can be no assurance that any insurance maintained by CLH will be adequate to cover the losses or liabilities incurred by CLH or that such events would not adversely affect the financial condition or operations of CLH.

No Guarantee of Future Performance

The past performance of CLH is not necessarily a sufficient guide to the future performance of CLH. The success of CLH depends on a number of factors and is subject to numerous uncertainties. There is no guarantee that CLH will continue to perform in line with its previous track records. Hence, the past performance of CLH is not indicative of its future performance.

Receipt of Dividends and other Payments from CLH may be Restricted by Commercial, Statutory and Legal Restrictions

Following the Acquisition, one of our significant assets will be our equity interest in CLH. The ability of CLH to pay dividends or make other distributions to us may be restricted by, among other things, the availability of funds, the terms of various credit arrangements entered into by CLH, as well as statutory and other legal restrictions. In addition, although there are currently no foreign exchange control regulations which restrict the ability of CLH to distribute dividends to us, we cannot assure you that the relevant regulations will not be changed and that the ability of CLH to distribute dividends to us will not be restricted in the future.

Presently, there are no constraints on the repatriation of income from Spain except for the payment of a withholding tax based on the prevailing tax rate of 18% to the relevant authority in Spain. We cannot assure you that the relevant regulations on repatriation of profit will not be changed and that the ability of the Group repatriating profit back to Singapore will not be restricted in the future.

Foreign Exchange Exposure Risks

Foreign exchange exposure risk may arise from investments being made in one currency and with subsequent realisation of the same investments being denominated in another currency. As one of the possible exit routes of investment in CLH is through the listing of the Class C shares in CLH on a recognised bourse, there is the risk of foreign exchange exposure depending on the location of the stock exchange and listing currency. While there is a certain extent of natural hedge between our Euro dollar loans and our investment in CLH, any significant depreciation of the Euro against the S$ will adversely affect the value of the Sale Shares, the return on our investment in CLH and the proceeds on the sale of the Sale Shares.

Debt Financing and Refinancing Risks

The Company intends to obtain a term loan facility denominated in US$ or € equivalent to S$63 million to finance the purchase of the Sale Shares.

The Company will be subject to risks normally associated with debt financing, including the risk that its cash flow will be insufficient to meet required payments of principal and interest under such financing.

Lack of Liquidity

The Sale Shares are Class C shares, a class of shares of CLH that are unlisted. Upon the purchase of the Sale Shares, our investment in such shares (based on the aggregate consideration of approximately S$116.2 million) represent approximately 79.2% of our shareholders' equity as at 31 December 2001. Being unlisted, there may be limited avenues available to us to divest such investments and accordingly, we could incur greater investment realisation risks than investments in listed securities.

Although there are no selling restrictions pertaining to the sale of the Sale Shares by the Company, a company which is directly or indirectly controlled by a Spanish or foreign governmental or public body which holds in excess of 3% of the capital of CLH is required to apply to the Spanish Secretary of State for the Economy, Energy and Small and Medium-Size Businesses for the recognition of its voting rights in respect of its shares in CLH. This requirement may affect our ability to sell the Sale Shares to governmental or public bodies.

Exit Timing

The ability to realise our investment in CLH, if and when desired, and the ability to realise them at satisfactory prices will depend on a number of different variables including the timing of the transaction, economic conditions, global equity markets, exchange rates, the size of our shareholding which may attract a premium or a discount to the prevailing market price. In addition, the realisation of such investments and the returns on such realisation may be affected by adverse market conditions prevailing at the time of such realisation.

4.4 <u>Material Contingent Liabilities of CLH</u>

Dispute in connection with the Special Tax on Hydrocarbons

The National Inspectorate Office in Spain, a regulatory body with tax inspectorate and management duties, has commenced investigations into the existence of unaccounted-for losses, or shrinkage, in the storage of stock for the financial years 1997, 1998 and 1999, and the total amount in issue is approximately €22.9 million (approximately S$37.6 million) for CLH, being €19.4 million (approximately S$31.8 million) in tax liability and €3.6 million (approximately S$5.9 million) interest for delayed payment. The amount in issue is approximately €1.9 million (approximately S$3.1 million) for CLH Aviación, being €1.7 million (approximately S$2.8 million) in tax liability and €0.3 million (approximately S$0.5 million) interest for delayed payment.

CLH has informed us that the alleged differences in the amount of stock do not represent actual differences given that they vary according to the frequency in making the measurement and imperfections in the measuring equipment. Applicable Spanish law allows for the existence of a certain percentage of shrinkage that occurs during the storage of stock. In addition, the measuring equipment used to count the stock may have inherent flaws which would lead a certain degree of inaccuracy. CLH has informed us that the National Inspectorate Office and CLH are not in agreement as to whether these measuring discrepancies fall within the tolerance margins envisaged by tax legislation in force in Spain.

CLH has sought judicial review of the administrative resolution, as a favourable decision from the Economic-Administrative Court in Spain may not be forthcoming.

The amount of the provision allocated by CLH for this matter amounts to €12.4 million (approximately S$20.3 million) as at 31 December 2001. The provision allocated by CLH Aviación amounts to €2.1 million (approximately S$3.4 million).

At the same time, there are administrative proceedings underway against both CLH and CLH Aviación, for the financial years 1993 to 1996 for a joint amount of approximately €1.9 million (approximately S$3.1 million). This concerns certain errors made in the preparation of certain documents in computer format being errors in the Tax Identification Number or in the Economic Activities Code. These are currently being appealed before the Economic-Administrative Courts in Spain.

Investigations have also commenced against CLH for errors or non-compliance with the regulations in force regarding the removal of products from in-bond storage, for an approximate amount of €19.1 million (approximately S$31.3 million). The errors are a result of incorrect information supplied to CLH by its operators. The amounts are claimed from CLH, as a taxpayer in its capacity as owner of the in-bond storage facility and issuer of the accompanying documents. However, the errors are attributable to the operators who have since accepted liability. According to information supplied by CLH, there is a written agreement between CLH and each of the operators pursuant to which, once all avenues for challenge have been exhausted, that is, when the Judgement Courts in Spain pass sentence over the case in question, the amount owing by CLH to the tax authorities will be paid by the operators.

Dispute in connection with Corporation Tax

On 30 October 1998, investigations commenced against CLH in connection with corporation tax, value added tax, withholdings from wages and salaries of staff and from investments, for the financial years 1989 to 1995, and the amount in issue amounts to €72.7 million (approximately S$119.2 million), of which €0.2 million (approximately S$0.3 million) corresponds to value added tax and €72.5 million (approximately S$118.9 million) (of which €62.6 million (approximately S$102.7 million) remains in issue as of July 2002) corresponds to corporation tax, being the amount under investigation plus interest for delayed payment.

According to information provided by CLH, the most significant item disputed by the Taxation Inspectorate in Spain arises from the different valuation and tax treatment given to the assets and stocks of the now-defunct Compania Arrendatria del Monopolio de Petreleos, S.A., the former state oil monopoly, and which were transferred to CLH.

CLH has allocated a provision of at least €52.9 million (approximately S$86.7 million) for this matter in the annual accounts as at 31 December 2001.

Dispute in connection with Withholdings from Wages and Salaries of Staff

In 1994, the Taxation Inspectorate in Spain commenced an investigation into whether withholdings were made against workers who left CLH, in the financial years 1986 to 1990, for a total amount of €10.7 million (approximately S$17.5 million). As a result of the favorable decisions of the National Court (Audiencia Nacional) contained in the decision dated 29 March 2001, CLH has estimated that its liability should not exceed €6.0 million.

On 25 May 2001, an appeal for cassation was brought in the Supreme Court in which it was alleged, as the principal legal argument, that the 1987 financial year was time-barred (and not just 1986, as decided by the National Court).

CLH has allocated a provision of €4.5 million (approximately S$7.4 million) for this matter as at 31 December 2001.

Save as disclosed, the Company is not aware of any matters which would warrant further provisions to be made to the financial statements of CLH.

5. RATIONALE FOR ACQUIRING AN INTEREST IN CLH

The rationale for acquiring an equity interest in CLH is as follows:

(a) Our investment in CLH is in line with our long term international growth strategy. CLH has a solid asset base and the nature of its business carries a lower risk profile as its revenue is generally not affected by the volatilities of oil prices and has the benefit of operating a regional monopoly. Therefore the investment in CLH would complement our current procurement business and would help to stabilise earnings and provide us with long-term growth prospects;

(b) Our investment in CLH will provide us with a regional presence in Europe from which to extend our jet fuel sales business into the European market. The presence in Europe will also allow us to extend the trading time zones in which it operates and aid development of a 24 hour trading business;

(c) Our investment in CLH will provide us with opportunities to jointly develop markets with Spanish influences such as Chile, Peru and Mexico; and

(d) CLH has one of the most advanced oil logistics infrastructures in the world. By partnering with CLH and the other shareholders of CLH, we will have the advantage to explore Chinese oil logistics business opportunities in the future through joint ventures/technology transfers.

6. FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Shareholders are advised to read pages 16 to 18 of this Circular relating to the financial effects of the Acquisition.

The following financial effects are shown for illustrative purposes only and do not necessarily reflect the actual future financial position and prospects of the Company after the Acquisition and do not include the financial effects of the proposed acquisition of a 33% equity interest in Shanghai Pudong International Airport Aviation Fuel Supply Corporation Ltd announced by the Company on 23 July 2002.

6.1 Share Capital

There would be no change in our issued and paid up capital arising from the Acquisition as the consideration will be satisfied in cash.

6.2 Net Tangible Assets (“NTA”)

The NTA and NTA per share of our Group for the financial year ended 31 December 2001 were S$146.7 million and 25.47 cents respectively. The NTA per share is calculated based on the total number of shares as at 31 December 2001 of 576,000,000.

There would be no change in the NTA and the NTA per share of our Group for the financial year ended 31 December 2001, had the Acquisition been completed on 31 December 2001 and no dividends were received.

6.3 Earnings

The effect on the earnings per share (“EPS”) of the Group based on the audited financial statements of the Group as at 31 December 2001, on the assumption that the Acquisition had been effected at the beginning of FY2001 is set out below:

(S$’000)	**The Acquisition**
Net profit after tax based on audited accounts as at 31 December 2001	40,550
Add : Gross dividend income	13,864
Less : Interest costs on a term loan taken to finance the Acquisition	(3,690)
Less : Tax expense	(2,496)
Adjusted net profit after tax	48,228
Pre-acquisition EPS per share (cents)	9.13
Post-acquisition EPS per share (cents)	10.86

Notes:

The above financial effects of the Acquisition are prepared based on, inter alia, the following inputs and assumptions:-

(1) The Group’s share of dividends is computed based on the interim and final dividends declared out of FY2001 profits, excluding the special dividends paid in FY2001.

(2) The interest costs are estimated based on an interest rate of 5.85% per annum on a term loan of S$63 million.

(3) On the tax expense, under Section 50A of the Singapore Income Tax Act, the Group is entitled to unilateral tax credits which allows it to claim tax credit on the withholding tax paid in Spain, up to the amount of tax liability in Singapore. For illustration purposes, the tax expense is equivalent to the 18% withholding tax payable in Spain.

(4) EPS is computed based on the weighted average issued share capital of 444,000,000 shares.

The amount of dividends (whether interim, final or special) paid in FY2001 by CLH is not indicative of the amounts of dividends that will be paid out to its shareholders in future. There is also no assurance that dividends will be paid in future or as to the amount or timing of any dividends that are to be paid in future.

6.4 Gearing

The effect on the gearing of our Group based on the audited financial statements of the Group as at 31 December 2001, had the Acquisition been completed on 31 December 2001 and assuming no dividends were received, is set out below:

(S$'000)	**Before the Acquisition**	**After the Acquisition**
Fixed deposits, cash and bank balances	139,970	94,580
Total bank borrowings	52,363	115,363
Shareholders' funds	146,698	146,698
Gearing - gross (times)(1)	0.36	0.79
Gearing - net (times)(2)	Net cash	0.14

(1) Based on total borrowings divided by shareholders' funds

(2) Based on total borrowings less fixed deposits, cash and bank balances

Notes:

The above financial effect is based on the consideration of €61.9 million (approximately S$108.4 million) excluding the additional consideration of €4.4 million (approximately S$7.8 million) which may be payable by the Company if certain performance targets and conditions are met by CLH by specific dates.

7. INTEREST OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

The shareholdings of the substantial shareholders of the Company as recorded in the Register of substantial shareholders' shareholdings as at 23 August 2002 is as follows:

Name of Shareholders with 5% or more shareholding in the Company	Direct Interest		Deemed Interest	
	No. of shares	%	No. of shares	%
China Aviation Oil Supply Corporation	432,000,000	75	-	-

None of the substantial Shareholders or the Directors has any interest, direct or indirect in the acquisition of the Sale Shares.

8. SUBSTANTIAL SHAREHOLDER'S UNDERTAKINGS

CAOSC which holds 75% of the issued and paid up capital of the Company, have undertaken to the Company that they will vote in favour of the Acquisition.

9. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on page 21 of this Circular, will be held at Meeting Room 307, Level 3, Suntec Singapore International Convention & Exhibition Centre, 1 Raffles Boulevard Suntec City Singapore 039593 on 23 September 2002 at 10:30 am.

10. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and who wish to appoint a proxy to attend and vote on their behalf should complete, sign and return the proxy form attached to this Circular in accordance with the instructions printed thereon as soon as possible and, in any event, so as to arrive at our registered office not less than 48 hours before the time fixed for the EGM. The completion and return of a proxy form by a Shareholder does not preclude him from attending and voting in person at the EGM should he subsequently decide to do so.

11. DIRECTORS' RECOMMENDATION

The Directors have considered the risk factors set out in paragraph 4.3 in respect of the Company's acquisition of the Sale Shares, the material contingent liabilities facing CLH set out in paragraph 4.4 and the rationale for the Acquisition as set out in paragraph 5 and are of the opinion that the Acquisition is in the interest of the Company and recommend that you vote in favour of the ordinary resolution 1 set out in page 21 of this Circular.

12. GENERAL INFORMATION – MATERIAL LITIGATION

Neither the Company nor its subsidiary is engaged in any litigation either as a plaintiff or defendant which might materially and adversely affect the financial position of the business of the Company or its subsidiary, and the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or its subsidiary or any facts likely to give rise to any litigation, claims or proceedings which may have a material adverse effect on the financial position or business of the Company and its subsidiary taken as a whole.

13. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been approved by all the Directors who collectively and individually accept responsibility for the information given and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this Circular constitutes true and full disclosure of the material facts and that they are not aware of any facts the omission of which would make any of such information contained in the Circular misleading.

14. DOCUMENTS FOR INSPECTION

The following documents are available for inspection at the registered office of the Company at 8 Temasek Boulevard #31-02 Suntec Tower Three Singapore 038988 during normal business hours for 3 months from the date hereof:

(a) Memorandum and Articles of Association of the Company;

(b) The Annual Report of the Company for FY2001;

(c) The Memorandum of Understanding dated 30 April 2002;

(d) CAOSC's letter of undertaking dated 15 May 2002;

(e) The accounts of CLH for FY2001; and

(f) The Purchase and Sale Agreement dated 31 July 2002.

Yours faithfully

Chen Jiulin
For and on behalf of
the Board of Directors
China Aviation Oil (Singapore) Corporation Ltd

CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

(Incorporated in the Republic of Singapore)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the shareholders of China Aviation Oil (Singapore) Corporation Ltd (the "Shareholders") will be held at Meeting Room 307, Level 3, Suntec Singapore International Convention & Exhibition Centre, 1 Raffles Boulevard Suntec City Singapore 039593 on 23 September 2002 at 10:30 am for the purposes of considering and, if thought fit, passing the following as resolutions with or without any modification, the following resolution:

As Ordinary Resolution 1

THAT:

(a) The acquisition of a 5% equity interest in Compania Logistica de Hidrocarburos CLH, S.A. ("CLH") comprising 3,502,923 registered voting shares of Class C of par value €1.20 each for an aggregate consideration of up to S$116.2 million (the "Acquisition") and in accordance with the terms and conditions of the Memorandum of Understanding dated 30 April 2002 be and is hereby ratified, confirmed and approved; and

(b) any director of the Company be and is hereby authorised to do all such further acts and execute such further documents which in their opinion may be necessary, desirable or expedient to give effect to the Acquisition.

By order of the Board

Adrian Mark Chang Choon Siew
Company Secretary
30 August 2002

NOTES:-

(a) Every Shareholder entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.

(b) The instrument appointing a proxy must be deposited at the registered office of the Company at 8 Temasek Boulevard #31-02 Suntec Tower Three Singapore 038988 at least 48 hours before the time set for the Extraordinary General Meeting or any postponement or adjournment thereof.

Notes:

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and where there is more than one proxy, the proportion of Shares to be represented by each proxy must be stated.

2. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion (expressed as a percentage of the whole) of his shareholding to be represented by each proxy.

3. This instrument of proxy must be signed by the appointor or his/her duty duly authorised attorney or, if the appointor is a body corporate, signed by a duly authorised attorney or affixed with its common seal thereto.

4. A body corporate which is a member may also appoint by resolution of its directors or other governing body an authorised representative or representatives in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50 of Singapore to attend and vote for and on behalf of such body corporate.

5. This instrument appointing a proxy or proxies (together with the power of attorney (if any) under which it is signed or a certified copy thereof), must be deposited at the registered office of the Company not less than 48 hours before the time fixed for holding the Extraordinary General Meeting.

6. Please insert the total number of shares held by you. If you have shares entered against your name on the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert the number of these shares. If you have shares entered against your name in the Depository Register and registered in your name of the Register of Members, you should insert the aggregate number of these shares. If no number is inserted, this instrument of proxy shall be deemed to relate to all the shares held by you.

7. The Company shall be entitled to reject this instrument of proxy if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in this instrument of proxy. In addition, in the case of members whose shares are deposited with The Central Depository (Pte) Ltd ("CDP"), the Company may reject any instrument of proxy lodged if such members is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Extraordinary General Meeting as certified by CDP to the Company.

CHINA AVIATION OIL (SINGAPORE) CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

PROXY FORM
EXTRAORDINARY GENERAL MEETING

(You are advised to read the notes below before completing this form)

I/We, ____ (Name)

of ____

____ (Address)

being a member/members of the above-mentioned company hereby appoint:-

Name	Address	NRIC/ Passport No	Proportion of Shareholdings (%)

Failing whom

Name	Address	NRIC/ Passport No	Proportion of Shareholdings (%)

as my/our proxy/proxies to vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Extraordinary General Meeting of the Company, to be held at Meeting Room 307, Level 3, Suntec Singapore International Convention & Exhibition Centre, 1 Raffles Boulevard Suntec City Singapore 039593 on 23 September 2002 at 10:30 am and any adjournment thereof. (Please indicate with an "X" in the spaces provided whether you wish to vote for or against the Resolution as set out in the notice of Extraordinary General Meeting. In the absence of specific directions, the proxy/proxies will note or abstain as he/they may think fit, as he/they will on any other matter arising at the Extraordinary General Meeting.)

Ordinary Resolutions	For	Against
Resolution 1: Approval for the Acquisition		

Dated this _________ day of _________ 2002

Total Number of Shares Held

____

Signature(s) of Member(s)/Common Seal

IMPORTANT

Please read Notes to Proxy Form on page 22.

1st fold here

2nd fold here

Affix
Postage
Stamp

CHINA AVIATION OIL (SINGAPORE) CORPORATION LIMITED

8 Temasek Boulevard
#31-02 Suntec Tower Three
Singapore 038988

3rd fold here and seal