

China Aviation Oil (Singapore) Corporation Ltd and its Subsidiary Companies

Auditors' Report to the Members of China Aviation Oil (Singapore) Corporation Ltd

We have audited the accompanying financial statements of China Aviation Oil (Singapore) Corporation Ltd ("the Company") and its subsidiary companies (collectively "the Group") set out on pages 7 to 50 for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Directors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with Singapore Standards on Auditing. Those Standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

CAD investigation

As announced on 29 November 2004, the Company incurred significant losses from speculative trading in oil derivatives. The significant derivative trading losses and related circumstances had led to an investigation by the Commercial Affairs Department ("CAD"). As at the date of this report, the CAD's investigation has not been completed. The Board of Directors are of the view that the outcome of the investigation would not require adjustments to be made to the financial statements. As at the date of this report, we are unable to conclude whether any adjustments might be required to be made to the financial statements arising from this investigation.

Scheme of Arrangement and going concern

The Group incurred a net loss of \$865 million for the year ended 31 December 2004. As at 31 December 2004, the Group and Company were in a net shareholders' deficit position of \$663 million and \$705 million respectively. These factors, together with the matters described below, indicate that there is material uncertainty which may cast significant doubt about the ability of the Group and the Company to continue as going concerns.

As explained in Notes 1(b) and 2(a) to the financial statements, the Company announced on 24 May 2005 a proposed Scheme of Arrangement ("the Scheme") with its creditors to restructure its liabilities and to ensure the rehabilitation of the Company as a going concern. Although the Scheme was approved by the requisite majority of the creditors on 8 June 2005 and sanctioned by the Court on 13 June 2005, it is conditional upon certain conditions being met or waived (where applicable) as detailed in Note 1(b) to the financial statements.

The execution of the Scheme of Arrangement is dependent, inter alia, on the participation of new investors with the Group's immediate holding company, China Aviation Oil Holding Company ("CAOHC"), in the fresh equity injection for the purpose of cash injection as required by the Scheme and the approval required from the various authorities as detailed in Note 1(b) to the financial statements.

The ability of the Group and Company to meet their financial obligations to continue as going concerns depend on the approval of the Scheme by the Company's shareholders as well as the Group generating sufficient positive cash flows from its operations following the restructuring exercise.

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Auditors' Report to the Members of China Aviation Oil (Singapore) Corporation Ltd (cont'd)

Scheme of Arrangement and going concern (cont'd)

If the Group and the Company are unable to continue in operational existence for the foreseeable future, they may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to reclassify long-term assets and liabilities as current assets and liabilities. No such adjustments have been made to the financial statements.

Impairment assessment

The auditors of China Aviation Oil Xinyuan Petrochemical Co. Ltd ("CAO Xinyuan"), a subsidiary of the Company, were unable to obtain sufficient financial information they considered necessary for the purpose of ascertaining whether a provision for impairment loss is necessary in respect of the oil storage properties held by CAO Xinyuan. Consequently, we are unable to ascertain the appropriateness of the carrying value of the oil storage properties of \$4,565,500 (see Note 10) in the consolidated balance sheet and the consequent effect on the consolidated profit and loss account of the year ended 31 December 2004. We are also unable to determine the appropriateness of the carrying value of the investment in CAO Xinyuan of \$8,220,795 (see Note 11) held by the Company.

Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in respect of the matters referred to in the preceding paragraphs :

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of :
 - (i) the state of affairs of the Company and of the Group as at 31 December 2004 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
 - (ii) the other matters required by Section 201 of the Act to be dealt with in the financial statements;
- (b) the accounting and other records required by the Act to be kept by the Company and those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.



ERNST & YOUNG
Certified Public Accountants

Singapore
5 December 2005