CIRCULAR DATED 30 AUGUST 2002

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

This Circular is issued by China Aviation Oil (Singapore) Corporation Ltd (the ''Company''). 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 the Company, 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.

Your attention is drawn to page 26 of this Circular in respect of actions to be taken if you wish to attend and vote at the Extraordinary General Meeting.

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

CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

(Incorporated in the Republic of Singapore)

CIRCULAR TO SHAREHOLDERS

in relation to

THE PROPOSED ACQUISITION OF 33% INTEREST IN SHANGHAI PUDONG INTERNATIONAL AIRPORT AVIATION FUEL SUPPLY COMPANY LTD

Financial Adviser to
China Aviation Oil (Singapore) Corporation Ltd

DBS BANK
THE DEVELOPMENT BANK OF SINGAPORE LTD

Independent Financial Adviser in relation to
the Proposed Acquisition

HL Bank
(a limited liability company incorporated in Malaysia)
A Member of the Hong Leong Group Malaysia

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form	:	21 September 2002 at 11.00 a.m.
Date and time of Extraordinary General Meeting	:	23 September 2002 at 11.00 a.m.
Place of Extraordinary General Meeting	:	Suntec Singapore International Convention & Exhibition Centre Meeting Room 307, Level 3 1 Raffles Boulevard, Suntec City Singapore 039593

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DEFINITIONS

In this Circular, the following definitions apply throughout unless otherwise stated:–

"Act"	:	The Companies Act, Chapter 50 of Singapore
"Audit Committee"	:	The Audit Committee of the Company as at the date of this Circular, comprising Messrs Zhang Junru, Jerry Lee Kian Eng and Yan Xuetong
"CAOSC"	:	China Aviation Oil Supply Corporation, the parent company of CAO
"CDP"	:	The Central Depository (Pte) Limited
"Circular"	:	This Circular dated 30 August 2002 to the Shareholders in relation to the Proposed Acquisition
"CLH"	:	Compania Logistica de Hidrocarburos, S.A.
"CLH Acquisition"	:	Investment by the Group in CLH, details as set out on page 22 of this Circular
"Company" or "CAO"	:	China Aviation Oil (Singapore) Corporation Ltd
"Completion" or "Completion Date"	:	The completion or the completion date, as the case may be, of the Proposed Acquisition in accordance with the terms and conditions of the Share Transfer Agreement, being the date on which the new business licence of SPIA is issued
"DBS Bank"	:	The Development Bank of Singapore Ltd
"Directors"	:	Directors of the Company for the time being
"EGM"	:	Extraordinary General Meeting, to be convened and held on 23 September 2002, the notice of which is set out on page 53 of this Circular
"EPS"	:	Earnings per Share
"FY"	:	Financial year ended or ending 31 December
"Group"	:	The Company and its subsidiary as at the date of this Circular
"Hongqiao Airport"	:	Hongqiao International Airport
"Independent Directors"	:	The independent directors of the Company as at the date of this Circular, being Messrs Jerry Lee Kian Eng, Tan Hui Boon and Yan Xuetong
"Interested Persons"	:	The term "interested person" as defined in Chapter 9 of the SGX-ST Listing Manual
"Latest Practicable Date"	:	26 August 2002, being the latest practicable date prior to the printing of this Circular
"Market Day"	:	A day on which the SGX-ST is open for trading in securities

"MOFTEC"	: Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China
"NTA"	: Net tangible assets
"PER"	: Price earnings ratio
"PRC"	: People's Republic of China
"Proposed Acquisition"	: The proposed acquisition by the Company of 33% of the issued and paid-up share capital of SPIA, pursuant to the Share Transfer Agreement
"Prospectus"	: The prospectus of the Company dated 26 November 2001 issued by the Company in respect of its invitation to the public to subscribe for 144,000,000 new Shares
"Pudong Airport"	: Shanghai Pudong International Airport
"SGX-ST" or "Stock Exchange"	: Singapore Exchange Securities Trading Limited
"Shanghai Airport Group Company"	: Shanghai Airport Group Company Ltd
"Shanghai Pudong Airport Company"	: Shanghai Pudong International Airport Company
"Shares"	: Ordinary shares of S$0.05 each in the capital of the Company as at the date of this Circular
"Shareholders"	: Persons who are for the time being registered as holders of Shares (other than CDP) and Depositors who have Shares entered against their names in the Depository Register
"Share Transfer Agreement"	: The agreement dated 23 July 2002 entered into between the Company and CAOSC relating to the Proposed Acquisition
"Sinopec Gaoqiao"	: Sinopec Shanghai Gaoqiao Petrochemical Co. Ltd, a subsidiary of China Petroleum & Chemical Corporation
"SPIA"	: Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd

Currencies and units of measurement

"Euro" or "€"	: Eurodollars
"RMB"	: Renminbi
"S$" or "$" and "cents"	: Singapore dollars and cents, respectively
"US$"	: US dollar
"kg"	: Kilogram
"%" or "per cent."	: Per centum or percentage

The terms ‘‘Depositor’’, ‘‘Depository Agent’’ and ‘‘Depository Register’’ shall have the meanings ascribed to them, respectively, in Section 130A of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa*. Words importing the masculine gender shall, where applicable, include the feminine and neuter 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 Act or any statutory modification thereof and not otherwise defined in the Circular shall have the same meaning assigned to it under the Act or any statutory modification thereof, as the case may be.

Any word defined in the Listing Manual and used in this Circular shall, unless the context otherwise requires, have the meaning assigned to it under the Listing Manual.

Any reference to a time of day in this Circular is made by reference to Singapore time unless otherwise stated.

CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

(Incorporated in the Republic of Singapore)

Directors	**Registered Office**
Jia Changbin	8 Temasek Boulevard
Chen Jiulin	#31-02 Suntec Tower Three
Bao Xiaoyan	Singapore 038988
Zhang Junru	
Gao Renwen	
Zhang Yizhou	
Jerry Lee Kian Eng	
Tan Hui Boon	
Yan Xuetong	30 August 2002

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

Dear Sir/Madam,

THE PROPOSED ACQUISITION OF 33% INTEREST IN SPIA FROM CAOSC

1. INTRODUCTION AND BACKGROUND TO THE PROPOSED ACQUISITION

The purpose of this Circular is to provide Shareholders with the relevant information pertaining to the Proposed Acquisition, including the rationale for the Proposed Acquisition and the financial effects thereof on the Group. The Proposed Acquisition is subject to, *inter alia*, the approval of Shareholders by way of ordinary resolution to be proposed at the EGM to be held on 23 September 2002, notice of which is set out on page 53 of this Circular.

As mentioned in the Company's Prospectus dated 26 November 2001, the Directors identified one of the key strategies for its future growth to be the strategic investments in oil-related facilities businesses mainly in the PRC. The Company also stated in the Prospectus that it would take steps to achieve its strategic objectives through participation in joint ventures. These plans were stated in the section headed "Our Strategy and Future Plans" in the Prospectus.

In line with the above strategies, the Directors are proposing to carry out the proposed acquisition of CAOSC's 33% interest in SPIA. The Company is also presently seeking Shareholders' approval for the CLH Acquisition, the details of which are on page 22 of this Circular.

2. SHAREHOLDERS' APPROVAL PURSUANT TO CHAPTERS 9 AND 10 OF THE LISTING MANUAL

Chapter 9 of the Listing Manual applies to transactions which a listed company or any of its subsidiaries or associated companies (other than a subsidiary or associated company that is listed on a foreign stock exchange) proposes to enter into with an "Interested Person" of the listed company.

An "Interested Person" is defined to mean a director, chief executive officer or controlling shareholder of the listed issuer or an associate of any such director, chief executive officer or controlling shareholder.

Under Chapter 9 of the Listing Manual, shareholders' approval and/or an immediate announcement is required in respect of a transaction between a listed company and an ''Interested Person'' if the value of the transaction is equal to or exceeds certain financial thresholds. In particular, shareholders' approval is required where the value of such transaction(s) is equal to or above 5% of the latest audited consolidated NTA of the listed company. As the purchase consideration payable by the Company pursuant to the Proposed Acquisition exceeds 5% of the Company's consolidated NTA of S$146.7 million as at 31 December 2001, Shareholders' approval is thus required.

Chapter 10 of the Listing Manual governs continuing listing obligations of a listed company in respect of major transactions. Under clauses 1006(b) and 1006(c) of the Listing Manual, Shareholders' approval is required in the event that the operating profit before income tax attributable to the assets acquired or disposed of exceeds 20% of the Group's operating profit before income tax, or the aggregate value of the consideration given or received exceeds 20% of the Company's market capitalisation. The Proposed Acquisition is a major transaction as the operating profit before tax attributable to the Proposed Acquisition is approximately 48% of the Group's operating profit before tax for the financial year ended 31 December 2001, and the consideration payable is approximately 23% of the market capitalisation of the Company as at the Latest Practicable Date.

Therefore, pursuant to Chapters 9 and 10 of the Listing Manual, the Proposed Acquisition is subject to Shareholders' (other than CAOSC) approval.

3. INFORMATION ON SPIA

A. History

SPIA was established in the PRC in September 1997 as a joint-venture between Shanghai Pudong Airport Company (40%), CAOSC (33%) and China Petroleum and Chemical Sales Company (27%), all of which are PRC entities.

Shanghai Pudong Airport Company is wholly-owned by the Shanghai Airport Group Company, a state-owned enterprise in the PRC. In the first half of 2002, Shanghai Pudong Airport Company transferred its 40% equity interest to Shanghai Airport Group Company. Established in June 1995, Shanghai Airport Group Company owns and operates the Pudong Airport and the Hongqiao Airport in Shanghai.

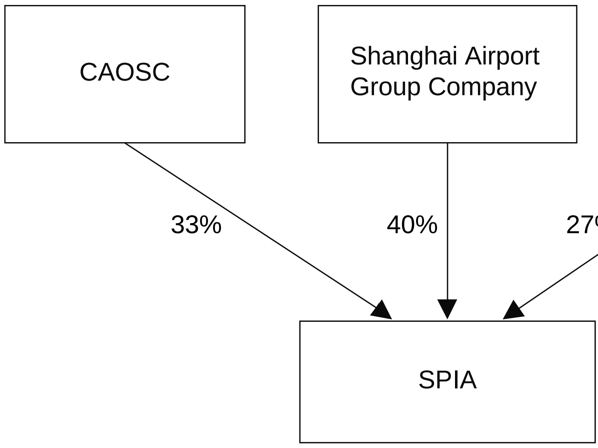
CAOSC, the parent company of CAO, is a PRC state-owned enterprise.

China Petroleum and Chemical Sales Company is a wholly-owned subsidiary of China Petroleum & Chemical Corporation (one of the largest oil refinery companies in the PRC), which is also a PRC state-owned enterprise. In the first half of 2002, China Petroleum and Chemical Sales Company transferred its 27% equity interest in SPIA to Sinopec Gaoqiao, a fellow wholly-owned subsidiary of China Petroleum & Chemical Corporation. Sinopec Gaoqiao was established in November 1981 and its principal business is the production of over 300 types of products, mainly gasoline, aviation oil, diesel oil, lubricating oil, paraffin, synthetic rubber, organic chemical technology raw materials, synthetic plastic and fine chemicals.

SPIA's registered office is located at No 1 Jichang Road, Pudong, Shanghai, the PRC.

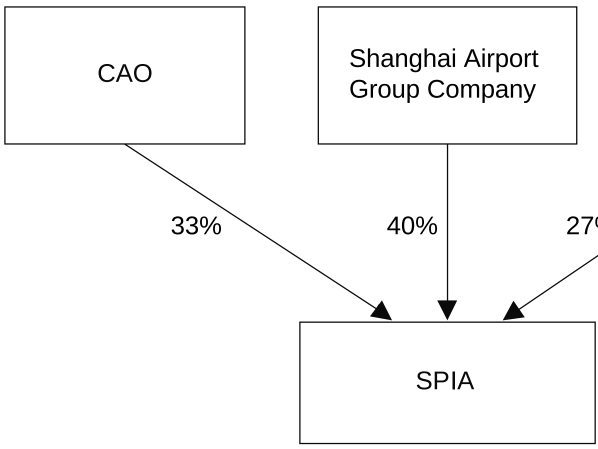
B. Present Shareholding Structure of SPIA

As at the date of this Circular, the shareholding structure of SPIA is as follows:–



C. Shareholding Structure of SPIA after the Proposed Acquisition

Upon the completion of the Proposed Acquisition, the Company will be a shareholder of SPIA which will become a sino-foreign joint venture company in the PRC.



D. Business

SPIA is principally engaged in the business of aviation fuel supply. It owns and operates all the refuelling facilities at Pudong Airport. SPIA is currently the sole supplier of aviation fuel to airlines using the Pudong Airport. The terms of such supply arrangement with Pudong Airport are not fixed formally. SPIA currently has 157 refuelling points at Pudong Airport and it is able to increase its fuel supply volume from the current 0.6 million tonnes per year to 1.2 million tonnes per year without having to incur further significant capital expenditure. It also has facilities to treat and recycle waste oil. SPIA commenced its fuel supply operations in October 1999, coinciding with the official opening of Pudong Airport.

The business scope of SPIA is as follows:–

(i) construction and operation of the Pudong Airport's fuel supply installations and related facilities;

(ii) supply and sale of aviation fuel and fuel storage and transportation; and

(iii) provision of technical services.

Services provided by SPIA

SPIA provides an integrated set of services and these are:

(i) purchase and sale of aviation fuel;

(ii) storage and maintenance of aviation fuel inventory; and

(iii) delivery of aviation fuel to aircrafts through SPIA's own refuelling facilities.

Properties, Plant and Equipment

SPIA presently occupies 5 parcels of land within the Shanghai Municipality which houses its fuel storage facilities. Of these 5 parcels of land, 2 parcels (itemised as Land Parcels 1 and 2 in the table below) were provided for use by the Shanghai land authorities under the PRC land allocation system. Under the system, SPIA was allocated the relevant land-use rights over the 2 land parcels for only nominal land use fees paid to the Shanghai municipal government. The other 3 parcels of land (itemised as Land Parcels 3 to 5 in the table below) were provided as granted land and have been similarly authorised for purposes of housing fuel storage facilities.

Pursuant to PRC laws, SPIA is required, after its conversion into a sino-foreign joint venture and the issuance of its new business licence, to apply to the relevant government authorities for the continued right to use the 2 pieces of allocated land. Barring unforeseen circumstances, the Directors expect the approval for the continued use of the 2 pieces of allocated land by SPIA to be granted by the relevant PRC government authorities. Details of the 5 parcels of land are as follows:–

Land Parcel	Gross area (square metres)	Purpose	Term	Land Use Right
1	2,470	Commercial	In perpetuity	Allocated
2	24,192	Commercial	In perpetuity	Allocated
3	147,190	Storage	30 years (24/5/2000 to 23/5/2030)	Granted
4	16,142	Storage	30 years (24/5/2000 to 23/5/2030)	Granted
5	2,948	Comprehensive	50 years*	Granted

* SPIA is currently in the process of applying for the Land-Use Rights Certificate

Under the PRC's system of granted land, the PRC state government grants to land users the right to use the state-owned land (referred to as "the land-use right") for a certain number of years, and the users are required to pay the PRC state government a grant fee for the land-use right.

In the case of allocated land, the PRC government (at or above the county level) may decide to allocate the land to the land user after the land user has paid resettlement compensation and levelling expenses, or may gratuitously allocate the land-use right to the land user. Where the land-use right has been obtained by means of allocation, then except as otherwise provided by PRC laws, administrative rules or regulations, there shall be no restrictions with respect to the term of use for allocated land.

SPIA's key assets include a 42-kilometre pipeline directly connecting Shanghai Wai Gaoqiao port to Pudong Airport, twelve 10,000 cubic-metres storage tanks, sixteen fuel-pumping trucks and fuel pumps, which are situated both at the Shanghai Wai Gaoqiao Port and the SPIA's premise at Shanghai Pudong, and the hydrant system which is located at the Shanghai Pudong Airport.

<u>Suppliers</u>

In the last 2 financial years, SPIA sourced about two-thirds of its aviation fuel supply from the Company and about one-third of the supply from various companies within the China Petroleum & Chemicals Corporation group (the ''Sinopec Group''). Currently, the bulk of SPIA's domestic fuel is sourced from the Sinopec Group.

The aviation fuel which is supplied by the Company to SPIA is imported fuel, and the Company has established a supply agreement with SPIA to supply the latter with aviation fuel for 2 years with effect from February 2001. The Sinopec Group does not have any supply agreement with SPIA. Both the Company's and the Sinopec Group's supply transactions with SPIA are on normal commercial terms. The credit period between SPIA and both CAO and the Sinopec Group is generally between 15 to 30 days. Going forward, the SPIA management will decide on the credit terms for the supply of aviation fuel from CAO and the Sinopec Group on a negotiated basis. Under PRC regulations, the import of aviation fuel for domestic consumption is subject to the prevailing import quota. As the fuel supply sourced from CAO is predominantly used for international flights, SPIA will determine the quantity of fuel to be purchased from CAO based on fuel the consumption pattern for international flights. Similarly, the fuel supply sourced from the Sinopec Group is mainly used for domestic flights, and as such, the SPIA's purchase of fuel from the Sinopec Group is dependent on the fuel consumption pattern for domestic flights.

<u>Customers</u>

SPIA's customers are the domestic and foreign airlines that it supplies aviation fuel to. Currently, SPIA serves about 60 airlines. SPIA would enter into supply agreements (each for a term of usually 1 year) with its customers, and these supply agreements would stipulate the pricing formula for the fuel to be supplied.

The pricing formula comprises a base price for aviation fuel and a mark-up.

- The base price for the aviation fuel is reviewed and determined on a monthly basis by the PRC government taking into consideration factors such as but not limited to the cost of domestic oil production and the international oil prices. The base price to be paid by a customer is determined based on the base price which applies during the month in which the fuel is delivered to the customer.
- The mark-up consists of administrative charges, charges for use of facilities and gross margin, and is negotiated on a case-by-case basis between SPIA and the customer taking into consideration, among other factors, the latter's credit quality and discount for bulk volume.

The credit period between SPIA and its customers is between 1 to 2 months. Since SPIA commenced its operations in 1999, it has encountered two incidents of bad debts amounting to a total of US$0.46 million.

SPIA's major customers who accounted for more than 5% of its turnover for each of the past two financial years are as follows:–

	Amount and Percentage of Turnover			
	Year 2000		**Year 2001**	
	S$ ('000)	**%**	**S$ ('000)**	**%**
China Eastern Airlines Corporation Ltd	43,978	16.2	62,229	15.8
Air China	52,573	19.4	61,458	15.6
Lufthansa	25,727	9.5	30,833	7.8
United Airlines	7,597	2.8	20,175	5.1

SPIA is currently not dependent on any single customer for its turnover. The Company does not have any interest, direct or indirect, in the above-mentioned customers.

Safety Standards and Quality Assurances

Since SPIA commenced its fuel supply operations in 1999, it has satisfied the safety standards examinations conducted annually by CAOSC. In May 1999, the International Aviation Transportation Association (IATA) performed an ad-hoc inspection, review and examination of SPIA's operations and management. In its report, IATA indicated that it was satisfied with SPIA's systems, in particular, its safety installations and management abilities.

SPIA is currently in the process of getting ISO 9000 certification. The ISO 9000 certification is a series of international standards on quality management and quality assurance developed by the International Organisation for Standardisation Technical Committee 176 in 1987, which has been adopted by more than thirty countries, including the United Kingdom and The United States of America, as their national quality system standard.

Government Regulations

SPIA is subject to all relevant laws and regulations of the PRC where its business operations are based. SPIA's business licence is for a period of 30 years expiring on 19 September 2027. Pursuant to PRC laws, SPIA is required, after the completion of the Proposed Acquisition and upon it becoming a sino-foreign joint venture, to apply for a new business licence for a period of 25 years (commencing from the date of issue of such licence) in accordance with the terms of the new joint venture contract to be entered into with the other 2 shareholders of SPIA.

SPIA's business licence is renewed by Shanghai Administration of Industry and Commerce on an annual basis. To date, SPIA has not violated any conditions pertaining to its business licence and has not encountered problems in the renewal of its business licence since they first obtained it in 1997.

Further, SPIA is also subject to environmental regulations of the PRC. In August 2000, an inspection certificate was issued, certifying that its current operations, installations and facilities at the Pudong Airport complied with the requirements of environmental protection.

Insurance

SPIA has taken up insurance cover with the People's Insurance Company of China in connection with its properties, equipment and third party liability. In particular, it has procured insurance cover of up to RMB400 million for its fuel storage tanks, and up to RMB500 million for its apron hydrant system. There has been no material claims on insurance since SPIA commenced its operation in 1999.

Competitive Strengths

The competitive strengths of SPIA are:–

(a) *Sole supplier to airlines in Pudong Airport*

SPIA is presently the sole owner and operator of all the refuelling facilities in Pudong Airport. It is also the sole supplier of aviation fuel to airlines in Pudong Airport. Although the terms of the supply arrangement with the Pudong Airport are not formally fixed, the Directors are of the view that it is unlikely that the PRC government would approve the setting up of separate fuel storage and refuelling facilities by another company, as this would result in wasteful duplication. As a consequence, SPIA is likely to continue to be the sole supplier of aviation fuel and its related services to Pudong Airport. SPIA is not aware, and has not been informed by the PRC authorities, of any other party who is expected to set up a new refuelling business to service Pudong Airport.

SPIA is likely to participate in the construction of refuelling facilities for the second phase of the Pudong Airport project to build a new and second runway which is expected to be due for completion in 2005. The capital expenditure to be incurred by SPIA for the construction of the additional refuelling facilities is estimated to be not more than RMB80 million, and is expected to be financed by SPIA's internal resources. Based on SPIA's net profit of RMB245.6 million in FY2001, our Directors believe that SPIA has sufficient internal resources to fund the above-mentioned capital expenditure.

(b) *High barriers to entry*

There are high barriers to entry in the business of aviation fuel supply. A potential supplier would require extensive infrastructure that would involve a substantial initial capital outlay. In addition, substantial working capital is also required to carry out such business. It is a business which requires economies of scale, and as such it would be difficult for new entrants to the business of aviation fuel supply to secure enough sales volume to sustain their business in the initial period of operation.

(c) *Experienced management team*

Zhang Zhenqi, the General Manager (highest executive position in SPIA), and Dr Yuan Xueming, the Deputy General Manager, have collectively more than 10 years' experience in the aviation fuel industry. They are supported by a senior management team who assist them in the daily management of the business operations of SPIA. As a result of their number of years of experience in the industry, the management team has built a network within the industry which is important to SPIA's business expansion and development.

(d) *New facilities and machinery*

SPIA has kept abreast of the latest technology by investing in new machinery and equipment to keep pace with the rapidly changing market conditions and to increase the efficiency of its operations. The total net book value of its fuel storage, transportation equipment, refuelling equipment and refuelling vehicles as at 31 December 2001 was RMB222.8 million. Most of SPIA's operations are already automated and it continually seeks to further automate its operations through investments in new technology and machinery and equipment. SPIA sources its machinery and equipment from third parties, and is not dependent on any supplier for the machinery and equipment.

Management

The SPIA board consists of 9 non-executive directors, with each shareholder represented by 3 directors. The Chairman is from the Shanghai Airport Group Company. The exercise of control over SPIA will be proportionate to the shareholdings of the respective shareholders of SPIA.

The responsibility for the overall management of SPIA is entrusted to the following persons:–

Name	Age	Current Occupation
Zhang Zhenqi	39	General Manager
Dr. Yuan Xueming	52	Deputy General Manager

Their respective working experience is set out below:–

Mr. Zhang Zhenqi joined SPIA in October 2001 as Deputy General Manager before being appointed as General Manager in March 2002. He is responsible for the overall management of SPIA. Prior to joining SPIA, Mr Zhang was Deputy Manager of China Aviation Oil Supply East China Co in July 1993 and General Manager of China Aviation Oil Supply Corporation (Anhui Branch) in November 1995. He holds a bachelor's degree in computation and statistics and a master's degree in economics.

Dr. Yuan Xueming joined SPIA in June 1998 as Deputy General Manager. He is responsible for assisting Mr Zhang in the overall management of SPIA. Prior to joining SPIA, he served as General Manager of TongJi University Enterprise Development Company and Assistant to the President of TongJi University. Dr Yuan holds a bachelor's degree in geology and a doctorate in management engineering.

Employees

As at 31 December 2001, SPIA had approximately 119 full-time employees. The relationship between the management and the staff has been good and SPIA has not experienced any industrial disputes since it commenced operations.

SPIA has made the requisite registration, with the Shanghai Municipal Labor and Social Insurance Bureau and have, pursuant to such registration, obtained the Social Insurance Certificate. In addition, it has passed each annual examination by the Shanghai Municipal Labor and Social Insurance Bureau since it commenced operations in 1999. All insurance benefits for SPIA's employees (whether past or present) will remain in place after the completion of the Proposed Acquisition.

Seasonality

SPIA's business is not subject to any material seasonal fluctuations.

Future Plans

There are official plans to build a second runway at the Pudong Airport and to develop Pudong Airport into an Asia Pacific aviation hub by 2005. When the project gets under way, SPIA intends to participate in the construction of a fuel supply network and infrastructure for the second runway and to supply fuel to the airlines using the second runway.

Inflation

Inflation has no material impact on SPIA, as the effect of inflation is factored into the sale price of the aviation fuel.

Research and Development (''R & D'') and Intellectual Property

SPIA is currently not engaged in any R&D activities. It does not own any intellectual property rights, and its business is not dependent on any intellectual property rights. Its business is however subject to the renewal of its business license on an annual basis and the relevant laws and regulations, the details of which can be found on page 10 of this Circular.

E. Financial Highlights of SPIA

In connection with the Proposed Acquisition, Ernst & Young, Certified Public Accountants (the ''Auditors'') have undertaken an audit of SPIA for FY2001 and FY2000. A summary of SPIA's audited financial statements for FY2001 and FY2000, which has been prepared in accordance with International Accounting Standards, is set out below:–

Profit and Loss Account

	Audited for FY2001		**Audited for FY 2000**	
	RMB'000	**S$'000**	**RMB'000**	**S$'000**
Turnover	1,769,614	395,003	1,289,835	271,544
Gross Profit	378,392	84,462	235,385	49,555
Profit before tax	289,168	64,546	155,929	32,827
Profit after tax	245,577	54,816	131,372	27,657

* No extraordinary or exceptional items in FY2000 and FY2001

Balance Sheet

	Audited as at end FY2001		Audited as at end FY2000	
	RMB'000	**S$'000**	**RMB'000**	**S$'000**
Non-current assets				
Property, plant and equipment	276,734	61,771	290,586	61,176
Construction in progress	115	26	10,405	2,191
Long-term investments	100	22	100	21
Land-use rights	71,578	15,977	74,367	15,656
Current assets				
Inventories	97,960	21,866	224,087	47,176
Trade and other receivables	175,578	39,192	458,994	96,630
Prepayments	21	5	198	42
Tax recoverable	716	160	2,755	580
Cash and cash equivalents	140,924	31,456	93,993	19,788
Amount due from related companies	952	213	—	—
	416,151	92,892	780,027	164,216
Current liabilities				
Current portion of interest-bearing loans	352,500	78,683	546,000	114,947
Trade and other payables	9,702	2,166	11,568	2,435
Dividend payable	8,737	1,950	—	—
Amount due to related companies	5,046	1,127	97,482	20,523
	375,985	83,926	655,050	137,905
Net current assets	40,166	8,966	124,977	26,311
Non-current liabilities				
Interest-bearing loans	—	—	(182,500)	(38,421)
Deferred tax	(1,487)	(332)	(13,570)	(2,857)
	387,206	86,430	304,365	64,077
Represented by:				
Capital and reserves				
Share capital	200,000	44,643	200,000	42,105
Reserves	69,004	15,401	6,196	1,306
Retained profits	118,202	26,386	98,169	20,666
	387,206	86,430	304,365	64,077

Please refer to Appendix II of this Circular for the ''Compilation Report on the Proforma Financial Information''.

Financial Review of SPIA

SPIA's revenue is derived from the sale of aviation fuel to domestic and foreign airlines using the Pudong Airport. The 3 key determinants for SPIA's revenue are:

(i) traffic volume of flights;

(ii) aviation fuel consumption per aircraft; and

(iii) composition between international and domestic flights.

These 3 key determinants are in turn dependent on, *inter alia*, the economic growth of the PRC, level of foreign investments in the PRC and the PRC's volume of trade.

Cost Structure

The key cost components for SPIA are the cost of aviation fuel, depreciation for fixed assets, finance costs and staff costs. The cost of fuel is dependent mainly on international fuel prices for imported fuel and domestic fuel prices.

Profit Margin

Profit margin from the sale of aviation fuel for domestic flights is generally lower than that from the sale for international flights as our selling price for domestic flights is subject to a 17% tax under the PRC laws, whereas our selling price for international flights is tax exempt. The average sale price of aviation fuel for international flights over the past two financial years is about 16% higher than the average sale price for domestic flights. As a result, the overall profit margin of SPIA is dependent on the proportion of sales to domestic flights vis-à-vis international flights.

SPIA's revenue can be segmented as follows:–

	FY2001		**%**	**FY2000**		**%**
	RMB'000	**S$'000**		**RMB'000**	**S$'000**	
Domestic flights	516,069	115,194	29.2%	422,547	88,957	32.8%
International flights						
— domestic airlines	531,112	118,552	30.0%	435,763	91,740	33.8%
— foreign airlines	722,433	161,257	40.8%	431,525	90,847	33.4%
	1,769,614	**395,003**	**100%**	**1,289,835**	**271,544**	**100%**

Segmentation of SPIA's profit before tax is as follows:–

	FY2001		**%**	**FY2000**		**%**
	RMB'000	**S$'000**		**RMB'000**	**S$'000**	
Domestic flights	53,358	11,910	18.5%	25,776	5,426	16.5%
International flights						
— domestic airlines	101,514	22,659	35.1%	80,303	16,906	51.5%
— foreign airlines	134,296	29,977	46.4%	49,850	10,495	32.0%
	289,168	**64,546**	**100%**	**155,929**	**32,827**	**100%**

FY2000

Approximately 67% of SPIA's sales revenue in FY2000 was contributed by the sale of aviation fuel to the PRC domestic airlines, whereas the remaining 33% was due to foreign airlines. As the Pudong Airport is a new airport and was operational only in late 1999, many foreign airlines continued to operate at the more established Hongqiao Airport in Shanghai in year 2000. Accordingly, the revenue contribution from foreign airlines was lower in FY2000.

Approximately 67% of the sales revenue was attributable to international flights as compared to 33% for domestic flights. This pattern is in line with the objective of the Pudong Airport to be the hub in Shanghai for international flights. A total of 0.41 million tonnes of aviation fuel was supplied by SPIA to the airlines in the Pudong Airport.

Other than the cost of sales which constituted about 82% of the FY2000 turnover, the major cost components such as depreciation of property, plant and equipment (RMB28.2 million), finance costs (RMB26.1 million) and staff costs (RMB7.1 million) constituted 2.2%, 2.0% and 0.6% of the FY2000 turnover respectively.

In its first full year of operation, SPIA was profitable with a net profit of RMB131.4 million and a net profit margin of about 10%.

FY2001

Turnover grew by 37.2% from RMB1.29 billion in FY2000 to RMB1.77 billion in FY2001. The strong growth in turnover was mainly due to higher fuel consumption by airlines, as more airlines commenced or expanded their operations in the new Pudong Airport in 2001. Volume of aviation fuel supplied in FY2001 increased by 45.3% to 0.59 million tonnes. In particular, the supply of aviation fuel to foreign airlines increased by 69% from 0.14 million tonnes to 0.23 million tonnes. The portion of sales revenue attributable to foreign airlines increased significantly from 33.4% in FY2000 to 40.8% in FY2001.

With more international flights operating via the Pudong Airport, the proportion of SPIA's sales revenue attributable to international flights (for both domestic and foreign airlines) grew from 67% in FY2000 to 71% in FY2001. SPIA supplied a total of 0.4 million tonnes of aviation fuel for international flights in FY2001, or an increase of 155% over the previous year.

In line with higher turnover, cost of sales increased by 31.9% from RMB1.05 billion in FY2000 to RMB1.39 billion in FY2001. Gross profit margin increased from 18% to 21% during the period, due to higher revenue contribution from international flights. Finance cost increased by 20.5% to RMB31.4 million in FY2001 as loans drawn down in late FY2000 for working capital were repaid in late FY2001, whereas staff costs grew significantly by 47.9% due to an increase in salaries. Depreciation cost remains fairly constant at RMB28.9 million.

Besides greater sales of aviation fuel in FY2001 and improved gross profit margin, SPIA enjoyed economies of scale as the supply volume increased. As a result, its net profit grew substantially from RMB131.4 million in FY2000 to RMB245.6 million in FY2001 or an increase of 86.9%. Net profit margin for SPIA also grew from approximately 10% to 14%.

4. THE PROPOSED ACQUISITION

A. Consideration

The aggregate purchase consideration payable to CAOSC under the Share Transfer Agreement is RMB370 million or approximately S$77.6 million (based on the exchange rate of S$1:RMB4.77) (''Consideration'') and will be satisfied in cash. The Company intends to finance the Proposed Acquisition through internal resources including using S$57 million of the proceeds received from its initial public offering in November 2001 and the balance from its operating cashflow.

For the purpose of complying with PRC regulations in relation to the Proposed Acquisition, the Company commissioned an independent valuer, Topchina Assets Appraisal Co., Ltd (''TopChina Appraisal''), to prepare a valuation report (''Valuation Report'') dated 8 May 2002, for the 33% equity stake in SPIA, as set out in Appendix III. The Valuation Report is prepared based on SPIA's statutory financial statements which were prepared in accordance with the relevant accounting principles in the PRC. Based on the Valuation Report which was prepared based on the replacement cost method, the value of the 33% stake in SPIA was appraised at approximately RMB145.3 million (''Appraised Value''). Hence, the Consideration represents a 154.6% premium over the Appraised Value.

The Consideration was determined at arms-length and on a ''willing buyer-willing seller'' basis. In determining the Consideration, the Company took into account the above valuation appraised by TopChina Appraisal, as well as the price-earnings ratio (''PER'') and the price-to-net tangible assets ratio (''P/NTA'') implied in the Consideration. Based on the Consideration and SPIA's audited financial statements for FY2001, the implied PER and P/NTA for SPIA are as follows:–

(i) PER of approximately 4.5 times; and

(ii) P/NTA of approximately 2.9 times.

Assuming the Proposed Acqusition was completed on 31 December 2001, the Company would record goodwill on acquisition of approximately RMB242.2 million. The goodwill of RMB242.2 million (or S$49.1 million) is the excess of the Consideration of RMB370 million (or S$77.6 million) over the Group's share of identifiable net assets of the SPIA amounting to RMB127.8 million (or S$28.5 million) as at 31 December 2001. The goodwill is amortised on a straight line basis over a period of 20 years.

Under the terms of the Share Transfer Agreement, CAO shall own the 33% equity interest in SPIA together with all rights and interests, including but not limited to the rights in respect of the net assets of SPIA as at 31 December 2001 and the profits of SPIA made as from 1 January 2002 arising from or in relation to the said 33% equity interest. Assuming the Proposed Acquisition had been effected at the beginning of FY2001, the operating profit before tax contribution to CAO attributable to the Proposed Acquisition would be 33% of SPIA's operating profit in FY2001, amounting to RMB95.4 million.

B. Governmental Approval

Approvals are required from the Civil Aviation Administration of China (''CAAC'') and MOFTEC for the establishment of the sino-foreign joint venture under the Proposed Acquisition. MOFTEC will only issue an approval after all the conditions of the Proposed Acquisition have been satisfied and Shareholders' approval from the Company is obtained. Upon approval, a new business licence for SPIA has to be applied from the Shanghai Municipal Administration for Industry and Commerce. All agreements and other documents (including the Share Transfer Agreement) will only come into effect after MOFTEC approval is obtained. CAOSC is expected to obtain CAAC's approval for the Proposed Acquisition in early September 2002.

Except for the approvals described above, no other approvals from government agencies in the PRC are required for the Proposed Acqusition and the establishment of the sino-foreign joint venture.

C. Conditions Precedent

The Share Transfer Agreement shall become effective upon the fulfillment of all of the following conditions:–

(1) An independent financial search regarding all matters in connection with the Proposed Acquisition having been conducted by a public accountant firm registered and practising in the PRC acceptable to CAO, and the outcome of such financial search being satisfactory to CAO;

(2) An independent search regarding all matters in connection with the Proposed Acquisition having been conducted by a law firm registered and practising in the PRC acceptable to CAO, and the outcome of such independent search being satisfactory to CAO;

(3) The Share Transfer Agreement having been executed by duly authorized representatives of CAOSC and CAO;

(4) The Share Transfer Agreement having been approved by the board of directors and independent shareholders of CAO;

(5) The Valuation Report having been submitted to the relevant government department of the PRC for filing;

(6) The transfer by CAOSC having been approved by the relevant government department of the PRC; and

(7) The Share Transfer Agreement together with the new joint venture contract and the new Articles of Association of SPIA having been approved by the relevant government department of the PRC.

Other salient terms and conditions of the Share Transfer Agreement include the following:–

Remedy

In the event that SPIA's NTA as shown in SPIA's accounts as at 31 December 2001 does not accurately represent SPIA's actual NTA value, CAOSC shall immediately indemnify CAO against all of CAO's losses incurred therefrom. In the event of litigation, the extent of any remedy available to CAO can only be determined and assessed independently by the arbitration tribunal in the PRC.

Employees

Apart from employees who have voluntarily resigned, or whose employment contracts have expired prior to the Completion Date or who are dismissed in accordance with the relevant PRC laws or their respective employment contracts, CAOSC shall use its best endeavours to procure the employees currently employed by SPIA to remain in SPIA after the Proposed Acquisition.

Warranties and Undertakings of CAOSC

Pursuant to the Share Transfer Agreement, CAOSC has given warranties and undertakings to the Company, in particular:–

(i) other than the transfer stipulated in the Share Transfer Agreement, the present shareholders of SPIA have not sold, transferred, mortgaged, pledged, guaranteed or otherwise disposed of their respective interest in the registered capital of SPIA and have not entered into any contract, agreement or memorandum of understanding in respect of the above;

(ii) SPIA has obtained the necessary authorisations, approvals, consent and permits for the laying of all its existing oil pipes in Pudong Airport from the relevant authorities and has paid the relevant fees;

(iii) SPIA is not engaged in any litigation either as plaintiff or defendant, in respect of all claims or amounts which are material in the context of the Proposed Acquisition, and CAOSC has no knowledge of any proceedings pending or threatened against SPIA or any facts likely to give rise to any litigation, claims or proceedings which might have a material effect on the financial position or business of SPIA; and

(iv) the subject shares of the Proposed Acquisition shall be free from all mortgages, charges, pledges, liens and other encumbrances.

5. RATIONALE FOR THE PROPOSED ACQUISITION AND FUTURE PLANS

As stated in the ''Introduction and Background to the Proposed Acquisition'', the Company mentioned in the Prospectus that in line with its future plans, it intends to boost its sales and profits and thereby enhance its competitiveness in the market by investing in storage and refuelling facilities mainly in the PRC close to the locations of its customers.

The Proposed Acquisition is in line with the Company's plans as stated above as well as its business development and expansion initiatives. The Directors consider jet fuel procurement, international oil trading and oil-related infrastructure investments as the core competencies of the Group. The Proposed Acquisition offers the Company direct access to domestic and international airlines in Shanghai and is in line with its infrastructure investment objectives of providing stable returns at acceptable levels of risk.

With the Proposed Acquisition, the Group is taking another step towards its aim of building a global infrastructure for distribution of jet fuel and related oil products. The previously announced strategic investment by the Group in Spain's largest fuel supply company, CLH, in April this year also enhances the Group's access to physical asset infrastructure. The Proposed Acquisition together with the CLH Acquisition will complement the Group's trading activities in jet fuel and other petroleum products and broaden its earning base significantly.

The Company considers the Proposed Acquisition to be attractive and strategic in view of the following reasons:–

(a) ***Sole Supplier of Aviation Fuel to Pudong Airport***

SPIA currently owns and operates all the refuelling facilities in Pudong Airport and is the sole supplier of aviation fuel to airlines using the airport.

The Company believes that SPIA will continue to be the sole supplier of aviation fuel to Pudong Airport as it is unlikely that the PRC authorities will approve the setting up of separate fuel storage and refuelling facilities by another company as it would be a waste of resources to duplicate facilities. It would also be prohibitively costly for another company to duplicate the current comprehensive facilities set up by SPIA.

(b) ***Growth Prospects of Pudong Airport***

The future prospects of Pudong Airport are promising. According to a report in March 2002 by the South China Morning Post of Hong Kong (quoting a speech by the chairman of the Shanghai Airport Group Company during the PRC National People's Congress), the shift of all international flights from Hongqiao Airport to Pudong Airport is anticipated to triple passenger throughput at Pudong Airport to 21 million by 2005 (i.e., about 60% share of Shanghai's market of an estimated 32 million passengers).

Presently, Shanghai's other airport, Hongqiao Airport, provides for both domestic and international flights. However by October 2002, all international flights to Shanghai (including flights to and from Hong Kong and Macau) will arrive and depart from Pudong Airport. Pudong Airport will also provide for long-haul domestic flights. It is expected that this will increase Pudong Airport's current capacity utilisation from 30% to 50%. With an increasing number of flights arriving and departing from Pudong Airport, sales for SPIA will increase as most airlines will require refuelling at the Pudong Airport. In view of its available capacity, SPIA is well-positioned for growth.

(c) ***Profitable Track Record***

SPIA was operational in 1999 and was profitable during its first two full years of operation. In FY2000, the profits after tax of SPIA amounted to RMB131.4 million, while in FY2001, the profits after tax was RMB245.6 million.

With its experience and profitable track record, SPIA is in a position to contribute to the success and profitability of the Company.

The Directors expect the Proposed Acquisition to have a positive effect on the profit of the Company in 2002. However, the actual contribution to the Company's net profit after tax in 2002 as a result of the Proposed Acquisition will depend on the actual performance of SPIA in 2002 and completion of the Proposed Acquisition in 2002. In this regard, there is no assurance as to the actual amount of profit contribution to the Company arising from the Proposed Acquisition. In addition, the impact of goodwill amortisation arising from the Proposed Acquisition will also have to be taken into account.

(d) ***Ability of SPIA to Cope with Increased Volume without Additional Capital Expenditure***

SPIA currently has 157 refuelling points at Pudong Airport. Based on its current storage capacity, it is able to increase its supply volume from the current 0.6 million tonnes per year to 1.2 million tonnes per year without having to incur further significant capital expenditure. Depending on the future traffic volume in the Pudong Airport, the current storage capacity can cater to both the current runway and the proposed second runway. It also has facilities to treat and recycle waste oil.

Accordingly, SPIA will be in a position to cope with the anticipated increase in air traffic through Pudong Airport and fully exploit the airport's future growth.

(e) ***Investment in SPIA's Comprehensive Storage and Refuelling Facilities will enhance the Company's Profit Margins and Earnings Base***

SPIA has comprehensive storage and refuelling facilities, including a 42 kilometre pipeline directly connecting Shanghai Wai Gaoqiao port to Pudong Airport, twelve 10,000 cubic-metres storage tanks, sixteen fuel-pumping trucks and fuel pumps which are situated both at the Shanghai Wai Gaoqiao Port and the SPIA's premise at Shanghai Pudong, and the hydrant system which is located at the Shanghai Pudong Airport.

The storage facilities will allow SPIA the flexibility of purchasing excess fuel when prices are low so that SPIA can enjoy better profit margins when fuel prices increase.

SPIA's refuelling facilities will also complement the Company's current core business of procurement of fuel for distribution and broaden the Company's earnings base.

6. RISK FACTORS PERTAINING TO THE PROPOSED ACQUISITION

The Directors believe that the risk factors that could affect SPIA and the Group are as follows:–

The loss of the right to use the 2 pieces of government allocated land on which SPIA's facilities are located will adversely affect the performance/results of SPIA in the consequent cessation of the affected facilities.

Land usage in the PRC is planned and apportioned by the PRC government. Currently, SPIA's premises are located on five pieces of land, of which 2 pieces are government allocated land.

Pursuant to PRC laws, SPIA is required, after its conversion into a sino-foreign joint venture, to apply to the relevant government authorities for the right to use the 2 pieces of allocated land. However, there is no assurance that such approval will be granted. As such, SPIA may have to convert the pieces of allocated land into granted land. In such event, a land grant fee, the amount of which is indeterminable at this stage, would have to be paid. The aggregate land grant fee, once fixed and determined, may be payable by way of one-time lump payment or periodic instalments. The Directors are of the view that the land grant fee will not be a material amount.

Decrease in global air traffic through Pudong Airport will adversely affect the revenue of SPIA

The supply of aviation fuel by SPIA is closely tied to the amount of air traffic passing through Pudong Airport. Unforeseen circumstances, such as the recent September 11 terrorist attack in The United States of America may lead to a fall in demand for air travel both globally and in the PRC, which will consequently lead to a decline in demand for aviation fuel and affect the sales and profitability of SPIA.

Loss of the right of fuel supply to Pudong Airport will have a negative impact on the turnover and profits of SPIA

SPIA is currently the only company that is supplying fuel to Pudong Airport although the terms of its supply arrangement with the airport are not fixed formally. However, with the entry of the PRC into the World Trade Organisation and the liberalisation of the PRC market and reforms in government policies, there is a risk that more competitors may enter into this aviation fuel supply industry.

In the event that SPIA is required under new PRC laws to share its current fuel supply facility with other parties, competition will increase. In the event that SPIA is not able to compete effectively with its competitors, for example, as regards to price and services, its profitability and prospects will be adversely affected.

SPIA is vulnerable to the volatility of oil prices

The oil market is volatile and often unpredictable as it is subject to prevailing demand and supply conditions. Oil price generally increases when there is a shortage of oil supply or an upsurge in demand for oil.

SPIA on the average maintains inventory to meet 1 month's supply to customers. Adverse movements in the prices of the aviation fuel supplied by SPIA is likely to affect the profits of SPIA due to the time lag between purchase and sale of the fuel. Moreover, at times when the oil price is high due to supply shortage, SPIA would still have to purchase the oil supply at the higher price to avoid supply disruption to airlines. Currently, SPIA does not engage in hedging activities regarding its oil supplies. Unfavourable movements in oil prices will have adverse effects on SPIA's profitability.

Profit margins are affected by the price of fuel which the PRC government fixes

The PRC government fixes the base price of fuel supplied for both domestic and international flights. The base price for aviation fuel is reviewed monthly and such pricing is published. Any changes in government pricing policies and consequently the price fixed by the PRC government regarding the sale of fuel will have an impact on the profit margin of SPIA.

SPIA currently sources a significant portion of its purchases from two key suppliers. The loss of these 2 key suppliers will have an adverse impact on its turnover and profitability

SPIA currently obtains the bulk of its supply of aviation fuel from CAO and the Sinopec Group for the supply of aviation fuel. Whilst CAO has contracted with SPIA to supply aviation fuel for 2 years with effect from February 2001, the Sinopec Group does not have any supply agreement with SPIA. The credit period between SPIA and its suppliers is generally between 15 to 20 days. Under PRC regulations, the import of aviation fuel for domestic consumption is subject to the prevailing import quota. There is no guarantee that these two suppliers will continue to supply aviation fuel to SPIA. The involuntary or unexpected loss of these key suppliers may temporarily disrupt SPIA's supplies while it seeks alternative sources and have a material adverse impact on SPIA's turnover and profitability. In the event that SPIA is unable to find alternative fuel supply sources at competitive prices, its costs will increase and its profitability will be adversely affected.

SPIA is subject to credit risks

SPIA currently grants credit terms of 2 months to foreign airlines and 1 month to domestic airlines, commencing from the date of delivery of fuel. It might have serious cash flow problems in the event that it encounters any credit problems with its customers. Also, defaults in payment by airlines will adversely affect its profitability.

Since SPIA commenced operations in 1999, it has encountered 2 incidents of bad debts amounting to a total of US$0.46 million. There can be no assurance that the risks of default in payment by airlines will not increase in the future. Any doubtful debts provided for and bad debts written off due to SPIA's inability to collect payment will reduce its profitability.

Introduction of new laws or changes to existing laws by the PRC government may adversely affect the business of SPIA

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are therefore subject to policy changes. Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited, and court decisions in the PRC do not have any binding effect on lower courts. Accordingly, the outcome of dispute resolutions may not be as consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of judgement by a court of another jurisdiction. For instance, SPIA currently enjoys a concessionary income tax rate of 15%, and in respect of imported fuel sold for international flights, exemption from value-added tax and import duty. In the event such concession/exemptions are withdrawn, SPIA's profitability and financial condition may be adversely affected.

Economic conditions in the PRC are subject to uncertainties that may arise from changes in government policies and social conditions

Since 1978, the PRC government has undergone various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last two decades. However, many of the reforms are unprecedented or experimental and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further re-adjustment of the reform measures. This refinement and re-adjustment process, together with any change in the PRC's political, economic and social conditions and changes in policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof, may consequently have a material impact on SPIA's operations in the PRC or a material adverse impact on its financial performance.

Changes in currency exchange rates could adversely affect profitability

SPIA's revenue from the supply of fuel is denominated in US$ for international flights and RMB for domestic flights. Imported fuel is purchased in US$ and locally-sourced fuel is purchased in RMB. Other operating expenses of SPIA are denominated in RMB. As a result, exchange rate fluctuations between US$ and RMB may have an adverse impact on the profits of SPIA. As the Company's reporting currency is in S$ while SPIA's reporting currency is in RMB, any fluctuations in the exchange rates between the S$ and RMB may have an impact on the earnings contribution of SPIA to the Company.

SPIA is subject to government environmental regulations

The 3 key environmental risks associated with the nature of aviation fuel are spillage, waste discharge and fire. The operations of SPIA are subject to various PRC environmental regulations. Environmental standards in the PRC and their enforcement are expected to become more stringent over time. These regulations and other governmental regulations being introduced from time to time will affect the way SPIA operates and may result in increased cost of compliance. The increase in the cost of compliance will have a negative impact on the profitability of SPIA.

CAO will only own 33% of SPIA and therefore will not have majority control

After the Completion, the Company will own 33% of SPIA's shares. The Company can only appoint 3 non-executive directors out of the 9 directors on SPIA's board. Accordingly, it would not be able to exercise control over all matters which require approval from the shareholders or directors of SPIA, including the approval of significant corporate transactions.

7. DETAILS OF THE CLH ACQUISITION

The Company is presently seeking shareholders' approval for the proposed acquisition of a 5% equity interest in CLH comprising 3,502,923 registered voting shares of Class C of par value €1.20 each ("Sale Shares"). The aggregate consideration for the Sale Shares comprises of the following:–

(a) base consideration of €61.9 million;

(b) €1.8 million based on the achievement of certain performance targets by CLH between its financial years ending 31 December 2002 till 2005; and

(c) €2.6 million upon the occurrence of certain specific corporate restructuring events.

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.

On 30 April 2002, the Company signed a Memorandum of Understanding with Repsol-YPF S.A., Petroleos Del Norte S.A., Compania Espanola De Petroleos S.A., BP oil Espana S.A. for the sale and purchase of the Sale Shares. The formal execution of the Purchase and Sale agreement for the Sale Shares took place on 31 July 2002. Upon completion of the CLH Acquisition, the Company 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 the Company for the Sale Shares is after taking into consideration the interim dividend due to the Company.

8. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

The following financial effects are shown for illustrative purposes only and do not necessarily reflect the actual future financial position and earnings of the Group after the Proposed Acquisition.

(i) Share Capital

There would be no change in our issued and paid up capital arising from the CLH Acquisition and the Proposed Acquisition as the consideration for both transactions will be satisfied in full by cash.

(ii) Financial effect on the NTA of the Group as if the CLH Acquisition and the Proposed Acquisition took place on 31 December 2001

Assuming that the CLH Acquisition and the Proposed Acquisition had been completed on 31 December 2001 and based on the Group's audited consolidated financial statements for the financial year ended 31 December 2001, the proforma financial effects on the consolidated NTA of the Group are as follows:–

	Before CLH Acquisition and Proposed Acquisition	After CLH Acquisition but Before Proposed Acquisition	After CLH Acquisition and Proposed Acquisition
NTA (S$'000)	146,698	146,698	97,652
NTA per Share (cents)	25.47	25.47	16.95

Notes:–

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

(1) There is no impact on the NTA after the CLH Acquisition but before the Proposed Acquisition as the CLH Acquisition is treated as a long-term investment and the purchase consideration is satisfied in full by internal cash and borrowings.

(2) The decrease in NTA after the CLH Acquisition and the Proposed Acquisition is attributed to the goodwill arising from equity accounting for the Proposed Acquisition. The goodwill of S$49.1 million for this purpose is the excess of the Purchase Consideration of S$77.6 million over the Group's share of identifiable net assets of the SPIA amounting to S$28.5 million as at 31 December 2001.

(3) The NTA per Share of the Group on a proforma basis is calculated based on the number of ordinary shares of S$0.05 each of 576,000,000 as at 31 December 2001.

(4) The following exchange rates have been applied for the computation of the financial effects:–

NTA — RMB4.48 to S$1.00
Purchase consideration — RMB4.77 to S$1.00

(5) It is assumed that there are no restructuring costs and no transaction costs associated with the Proposed Acquisition.

(6) It is assumed that there are no synergistic benefits arising from the Proposed Acquisition.

(iii) Financial effects on the EPS of the Group as if the CLH Acquisition and the Proposed Acquisition took place on 1 January 2001

Assuming that the CLH Acquisition and the Proposed Acquisition had been completed on 1 January 2001 and based on the Group's audited consolidated financial statements for the financial year ended 31 December 2001, the proforma financial effects on the consolidated earnings of the Group are as follows:–

	Before CLH Acquisition and Proposed Acquisition	After CLH Acquisition but Before Proposed Acquisition	After CLH Acquisition and Proposed Acquisition
Profit after tax (S$'000)	40,550	48,228	63,865
EPS (cents)	9.13	10.86	14.38

Notes:–

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

(1) The financial effect on the CLH Acquisition is based on the Group's share of the interim and final dividends declared by CLH out of FY2001 profits but excludes the special dividend declared in FY2001. The increase in profit after tax after the CLH Acquisition but before the Proposed Acquisition is after taking into consideration (a) the estimated interest costs on a term loan to be taken to finance the investment; and (b) the Section 50A of the Singapore Income Tax Act, where the Group would be 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 on the dividend income in Singapore.

(2) The EPS is calculated based on the weighted average number of ordinary shares of S$0.05 each of 444,000,000.

(3) The increase in profit after tax after the CLH Acquisition and the Proposed Acquisition of about S$15.6 million is attributed to the Group's share of SPIA's profit after tax in FY2001 of S$18.0 million, offset by amortisation

of goodwill of S$2.4 million. The goodwill of $49.1 million is amortised on a straight-line basis through the consolidated profit and loss statement over a period of 20 years.

(4) The following exchange rates have been applied for the computation of the financial effects:–

Earnings- RMB4.48 to S$1.00/Euro 1.00 to S$1.64
Purchase consideration — RMB4.77 to S$1.00/Euro 1.00 to S$1.75

(5) It is assumed that there are no restructuring costs and no transaction costs associated with the Proposed Acquisition.

(6) It is assumed that there are no synergistic benefits arising from the Proposed Acquisition.

(iv) Gearing as at 31 December 2001 as if the CLH Acquisition and the Proposed Acquisition took place on 31 December FY2001

Assuming that the CLH Acquisition and the Proposed Acquisition had been completed on 31 December 2001 and based on the Group's audited consolidated financial statements for the financial year ended 31 December 2001, the proforma financial effects on the consolidated gearing of the Group are as follows:–

S$'000	**Before CLH Acquisition and Proposed Acquisition**	**After CLH Acquisition but Before Proposed Acquisition**	**After CLH Acquisition and Proposed Acquisition**
Fixed deposits, cash and bank balances	139,970	94,580	17,012
Total borrowings	52,363	115,363	115,363
Shareholders' funds	146,698	146,698	146,698
Gearing — gross(1) (times)	0.36	0.79	0.79
Gearing — net(2) (times)	Net cash	0.14	0.67

Notes:–

The above financial effect is based on the consideration of Euro61.9 million (approximately S$108.4 million) excluding the additional consideration of Euro4.4 million (approximately S$7.8 million) which may be payable by CAO if certain performance targets and conditions are met by CLH within specific dates.

If the additional consideration of approximately S$7.8 million is payable, the impact on the gearing of the Group is illustrated as follows:–

	Before CLH Acquisition and Proposed Acquisition	**After CLH Acquisition but Before Proposed Acquisition**	**After CLH Acquisition and Proposed Acquisition**
Fixed deposits, cash and bank balances	139,970	86,792	9,224
Total borrowings	52,363	115,363	115,363
Shareholders' funds	146,698	146,698	146,698
Gearing — gross(1) (times)	0.36	0.79	0.79
Gearing — net(2) (times)	Net cash	0.19	0.72

It is assumed that there are no restructuring costs and no transaction costs associated with the Proposed Acquisition. It is also assumed that there are no synergistic benefits arising from the Proposed Acquisition.

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

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

9. INDEPENDENT DIRECTORS' RECOMMENDATION AND AUDIT COMMITTEE'S STATEMENT

HL Bank has been appointed to advise the Independent Directors on the Proposed Acquisition. The letter from HL Bank to the Independent Directors, containing its advice in full, is set out in Appendix I to this Circular. After taking into account the rationale and the terms of the Proposed Acquisition, HL Bank is of the opinion that the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of Shareholders.

Based on the recommendation from HL Bank, the Independent Directors are of the opinion that the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of Shareholders.

The Audit Committee (save for Ms Zhang Junru, who is an employee and nominee of CAOSC) has reviewed the terms and conditions of the Proposed Acquisition and is of the opinion that the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of Shareholders.

On the bases of the foregoing, the Independent Directors recommend that the Shareholders vote in favour of the ordinary resolutions at the EGM.

10. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Directors who collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm that, to the best of their knowledge and belief, having made all reasonable enquires, there are no other facts the omission of which would make any statement herein misleading and that the information in this Circular constitutes full, true and accurate disclosure of all material facts. The Directors also confirm that all relevant information of a material respect has been disclosed in this Circular.

Where information has been extracted from published or otherwise publicly available sources, the Directors have ensured that such information has been accurately and correctly extracted from these sources.

11. DBS BANK'S RESPONSIBILITY STATEMENT

DBS Bank acknowledges that, based on the information provided by the Company, after making all reasonable enquiries, and to the best of its knowledge and belief, this Circular constitutes full and true disclosure of all material facts on the Proposed Acquisition and that no facts have been omitted which would make any statement in this Circular misleading in any material respect.

Where information has been extracted from published or otherwise publicly available sources, the sole responsibility of DBS Bank has been to ensure that such information has been accurately and correctly extracted from these sources.

12. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

CAOSC (a controlling Shareholder holding 75% of the Company's issued and paid-up share capital as at the Latest Practicable Date) will abstain, and will procure its associates (as defined in the Listing Manual) to abstain, from voting at the EGM in respect of their shareholding in the Company and to refrain from making any recommendation in respect of the Proposed Acquisition. All the Directors of the Company, save for the Independent Directors, are nominees of CAOSC. Among our Directors, Mr Jia Changbin, Mr Gao Renwen, Mr Zhang Yizhou, Ms Zhang Junru and Ms Bao Xiaoyan are also the employees of CAOSC.

Save as disclosed above, none of the Directors or substantial Shareholders has any interest, direct or indirect, in the Proposed Acquisition.

As at the Latest Practicable Date, the total amount of all transactions with CAOSC or its associates and other Interested Persons (apart from CAOSC or its associates) are as follows:–

Name of Company	FY2002 (S$'000)
with CAOSC or its associates	S$382,045*
with other Interested Persons	Nil
TOTAL	S$382,045*

* This amount represents sales by the Company to CAOSC's associates.

13. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on page 53 of this Circular, will be held at Suntec Singapore International Convention & Exhibition Centre, Meeting Room 307, Level 3, 1 Raffles Boulevard, Suntec City, Singapore 039593 on 23 September 2002 at 11.00 a.m., for the purpose of considering and, if thought fit, passing with or without any modification to the ordinary resolutions set out in the notice of EGM.

14. ACTION TO BE TAKEN BY SHAREHOLDERS

If a Shareholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his/her behalf, he/she should complete, sign and return the attached Proxy Form in accordance with the instructions printed thereon as soon as possible and in any event so as to reach the registered address of the Company at 8 Temasek Boulevard, #31-02, Suntec Tower Three, Singapore 038988, not later than 48 hours before the time for holding the EGM. Completion and return of the Proxy Form by a Shareholder will not prevent him/her from attending and voting at the EGM if he/she so wishes.

Yours faithfully

CHEN JIULIN
Managing Director
China Aviation Oil (Singapore) Corporation Ltd

LETTER FROM HL BANK TO THE INDEPENDENT DIRECTORS

30 August 2002

The Independent Directors:–

Mr. Jerry Lee Kian Eng
Mr. Tan Hui Boon
Dr Yan Xuetong

Dear Sirs,

THE PROPOSED ACQUISITION OF 33% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF SHANGHAI PUDONG INTERNATIONAL AIRPORT AVIATION FUEL SUPPLY COMPANY LTD FOR A TOTAL PURCHASE CONSIDERATION OF RMB 370MILLION TO BE SATISFIED IN CASH (''PROPOSED ACQUISITION'')

1. INTRODUCTION

This letter forms part of the circular to the Shareholders dated 30 August 2002 (the ''Circular'') which provides, inter alia, details of the Proposed Acquisition and the recommendation of the Independent Directors. Unless otherwise defined herein, all terms in the Circular shall have the same meaning in this letter. For illustrative purposes, an exchange rate of S$/RMB 4.77 has been used in this letter.

On the 23rd July 2002, the Directors of China Aviation Oil (Singapore) Corporation Ltd (''CAO'' or the ''Company'') announced that the Company had entered into a Share Transfer Agreement (''Agreement'') with its parent company, China Aviation Oil Supply Corporation (''CAOSC'') to acquire CAOSC's 33% equity interest in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd (''SPIA'') for a total purchase consideration of RMB 370 million (approximately S$77.6million equivalent) (the ''Purchase Consideration'') to be satisfied in cash.

As at the Latest Practicable Date, CAOSC holds 432,000,000 CAO shares, representing 75% of the Company's issued and paid-up capital. The Purchase Consideration of RMB 370million (S$77.6million) for the Proposed Acquisition exceeds S$7.3million, which is equivalent to 5% of the Company's latest audited NTA of S$146.7million as at 31 December 2001. Pursuant to the definitions in Clauses 904 and 906 of the Listing Manual of the Singapore Exchange Securities Trading Limited (''Listing Manual''), the Proposed Acquisition is deemed an ''interested person transaction''. Accordingly, the Company is obliged under the ambit of Clause 906 of the Listing Manual to seek the approval of Shareholders for the Proposed Acquisition. CAOSC, as an interested person, will abstain, and will procure its associates (as defined in the Listing Manual) to abstain, from voting at the extraordinary general meeting in respect of their shareholding in the Company, and to refrain from making any recommendation in respect of the Proposed Acquisition. All the Directors of the Company, save for the Independent Directors, are nominees of CAOSC. Among our Directors, Mr Jia Changbin, Mr Gao Renwen, Mr Zhang Yizhou, Ms Zhang Junru and Ms Bao Xiaoyan are also the employees of CAOSC.

Chapter 10 of the Listing Manual governs continuing listing obligations of a listed company in respect of major transactions. Under clauses 1006(b) and 1006(c) of the Listing Manual, shareholders' approval is required in the event that the operating profit before income tax attributable to the assets acquired or disposed of exceeds 20% of the Group's operating profit before income tax, or the aggregate value of the consideration given or received exceeds 20% of the Company's market capitalisation. The Proposed Acquisition is a major transaction as the operating profit before tax attributable to the Proposed Acquisition is approximately 48% of the Group's operating profit before tax for the financial year ended 31 December 2001, and the consideration payable is approximately 23% of the market capitalisation of the Company as at the Latest Practicable Date.

In respect of the above, HL Bank has been appointed to advise the Independent Directors of CAO in respect of the Proposed Acquisition, in particular, on whether the terms of the Proposed Acquisition are on normal commercial terms and are not prejudicial to the interests of the Shareholders. This letter which sets out our advice to you, will form part of the Circular which provides, inter alia, details of the Proposed Acquisition and the recommendation of the Independent Directors thereon.

2. TERMS OF REFERENCE

HL Bank has not been involved in any aspect of the negotiations pertaining to the Proposed Acquisition, nor were we involved in the deliberations leading up to the decision by the Board of Directors to enter into the Proposed Acquisition. The objective of this letter is to form an independent opinion, for the purposes of Chapter 9 of the Listing Manual, on whether the terms of the Proposed Acquisition, being an interested person transaction, are on normal commercial terms and are not prejudicial to the interests of the Shareholders. We have confined our evaluation to the financial terms of the Proposed Acquisition and it is not within our terms of reference to comment on the legal risks and the commercial merits and risks of the Proposed Acquisition. Our terms of reference do not require us to evaluate or comment on the strategic or commercial merits of the Proposed Acquisition or on the future growth prospects of the Company and SPIA. It is not within our terms of reference to compare the relative merits of the Proposed Acquisition vis-à-vis any alternative transaction previously considered by the Company or transactions that the Company may consider in the future, and as such, we do not express an opinion thereon. Such evaluations remain the sole responsibility of the Directors, although we may draw upon their views in arriving at our recommendation.

In addition, we have not made an independent evaluation or appraisal of the condition and fitness of the assets of SPIA. We have relied solely upon the Valuation Report prepared by the independent valuer, Topchina Assets Appraisal Co., Ltd appointed by CAO in respect of such appraisal.

In the course of our evaluation, we have visited SPIA and have held discussions with the Directors and management of the Company and the management of SPIA. We have also examined publicly available information and information provided by the Company. We have referred to and relied on the information contained in the Company's announcement dated 23rd July 2002 regarding the Proposed Acquisition, its annual report for financial year 2001 and the audited financial highlights of SPIA for the years ended 31 December 2000 and 2001 found in Section 3E of the Circular. We have not independently verified such information furnished by the Directors and management of the Company and management of SPIA, whether written or verbal, and accordingly cannot and do not warrant the accuracy or completeness of such information. Nevertheless, the Directors have confirmed that to the best of their knowledge and belief, having made all reasonable enquires, there are no other facts the omission of which would make any statement herein misleading and that the information in this Circular constitutes full, true and accurate disclosure of all material facts. The Directors also confirm that all relevant information of a material respect has been disclosed in this Circular.

We have also made reasonable enquiries and used our judgement in assessing such information and have found no reason to doubt the reliability of such information. We have further assumed that all statement of fact, belief, opinion and intention made by the Directors in the Circular have been reasonably made after due and careful enquiry. In rendering our advice and giving our recommendation, we have not had regard to the specific investment objectives, financial situation or particular needs and constraints of any individual shareholder or any specific group of shareholder of the Company. We recommend that any individual shareholder or group of shareholders of the Company who may require specific advice in relation to his or their investment portfolio(s) should consult his or their stockbroker, bank manager, accountant or other professional advisers.

3. SUMMARY INFORMATION ON SPIA

SPIA is a joint-venture between Shanghai Airport Group Company (40%), CAOSC (33%) and Sinopec Shanghai Gaoqiao Petrochemical Co. Ltd (27%). SPIA is principally engaged in the business of fuel supply. It owns and operates all the refuelling facilities at Pudong Airport and is the sole supplier of fuel to both domestic and international airlines using the Pudong Airport. SPIA commenced its fuel supply operations in October 1999. Its key assets include a 42 kilometre pipeline directly connecting Shanghai Wai Gaoqiao port to Pudong Airport, twelve 10,000 cubic-metre storage tanks, sixteen fuel-pumping trucks, fuel pumps and a hydrant system. SPIA's customers are the domestic and foreign airlines that call at the Pudong Airport.

Information on SPIA is set out in Section 3 of the Circular.

4. RATIONALE FOR THE PROPOSED ACQUISITION

The Company had stated in its initial public offering prospectus dated 26th November 2001 that its future plans included investing in storage and refuelling facilities mainly in the PRC which are close to the locations of customers. The Proposed Acquisition is in line with the Company's plans as stated above as well as its business development and expansion initiatives.

The Company considers the Proposed Acquisition to be attractive and strategic in view of the following reasons:–

(a) SPIA being the sole supplier of fuel supply services to airlines calling at the Pudong Airport;

(b) the growth prospects of the Pudong Airport;

(c) SPIA's profitable track record;

(d) the ability of SPIA to cope with increased volume without additional capital expenditure; and

(e) the investment in SPIA's comprehensive storage and refuelling facilities will enhance the Company's profit margins and earnings base.

It is important for the Independent Directors to understand the background and the rationale of the Company in undertaking the Proposed Acquisition. The full context of the Company's rationale and justifications for the Proposed Acquisition can be found in Section 5 of the Circular.

5. PRINCIPAL TERMS OF THE PROPOSED ACQUISITION

5.1 Purchase Consideration

Under the Share Transfer Agreement, the Company will acquire CAOSC's 33% equity interest in SPIA for a consideration of RMB 370 million (S$ 77.6 million). The purchase consideration is proposed to be satisfied by a cash payment to CAOSC. The purchase consideration of RMB 370 million (the ''Purchase Consideration'') was arrived at on a ''willing buyer-willing seller'' basis.

For the purpose of complying with PRC regulations in relation to the Proposed Acquisition, the Company commissioned an independent valuer, TopChina Appraisal, to prepare a valuation report (''Valuation Report'') dated 8 May 2002 for the 33% equity stake in SPIA. The Valuation Report was prepared based on the statutory financial statements which were prepared in accordance with the relevant accounting principles in the PRC. We noted that the appraisal was prepared on the replacement cost method and valued the 33% stake in SPIA at approximately RMB 145.3 million (approximately S$ 30.5 million) as at 31 December 2001.

We noted that the Purchase Consideration of RMB 370 million represents:–

(i) a historical PER of approximately 4.5 times the audited net profit after tax (''NPAT'') of SPIA for FY2001; and

(ii) a premium of approximately 190% based on the FY2001 audited net tangible assets

5.2 Conditions Precedent

The Share Transfer Agreement shall become effective upon the fulfilment of all of the following conditions:

(1) An independent financial search regarding all matters in connection with the Proposed Acquisition having been conducted by a public accountant firm registered and practising in the PRC acceptable to CAO, and the outcome of such financial search being satisfactory to CAO;

(2) An independent search regarding all matters in connection with the Proposed Acquisition having been conducted by a law firm registered and practising in the PRC acceptable to CAO, and the outcome of such independent search being satisfactory to CAO;

(3) The Share Transfer Agreement having been executed by duly authorized representatives of CAOSC and CAO;

(4) The Share Transfer Agreement having been approved by the board of directors and independent shareholders of CAO;

(5) The Valuation Report having been submitted to the relevant government department of the PRC for filing;

(6) The transfer by CAOSC having been approved by the relevant government department of the PRC; and

(7) The Share Transfer Agreement together with the new joint venture contract and the new Articles of Association of SPIA having been approved by the relevant government department of the PRC.

In the event that SPIA's NTA as shown in its accounts as at 31 December 2001 does not accurately represent SPIA's actual NTA value, CAOSC shall immediately indemnify CAO against all of CAO's losses incurred therefrom. In the event of litigation, the extent of any remedy available to CAO can only be determined and assessed independently by the arbitration tribunal in the PRC.

5.3 Warranties and Undertakings of CAOSC

We note that CAOSC has given certain undertakings to the Company pursuant to the Share Transfer Agreement. These may be found in Section 4 of the Circular.

6. FINANCIAL EFFECTS

The financial effects of the Proposed Acquisition are laid out in Section 8 of the Circular. We note that the financial effects are shown for illustrative purposes only and do not necessarily reflect the actual future financial position and earnings of the Group after the Proposed Acquisition.

The significant financial effects resulting from the Proposed Acquisition include the following:–

(i) no change in the share capital of CAO as there are no new shares being issued pursuant to the Proposed Acquisition;

(ii) NTA

	Before Proposed Acquisition	After Proposed Acquisition
NTA (S$'000)	146,698	97,652
NTA per share (cents)	25.47	16.95

Had the Proposed Acquisition been effective 31 December 2001, the NTA of the Group is expected to decline from S$146.7 million to S$97.7 million following the Proposed Acquisition (on the assumption that the Compania Logistica de Hidrocarburos, S.A. (''CLH'') acquisition is completed after the Proposed Acquisition). The S$ 49 million decline is due to the goodwill arising from the Proposed Acquisition, which is the amount that the Purchase Consideration exceeds the identifiable net assets of SPIA proposed to be acquired. On a per share basis, NTA is expected to decline from S$0.255 to S$0.170 following the Proposed Acquisition;

(iii) Net Profit

	Before Proposed Acquisition	After Proposed Acquisition
Profit after tax (S$'000)	40,550	56,187
EPS (cents)*	9.1	12.7

* EPS is calculated based on the weighted average number of ordinary shares of S$0.05 each of 444,000,000.

Had the Proposed Acquisition been effective 31 December 2001, the Group profit for FY2001 would have been $56.2 million (on the assumption that the CLH acquisition is completed after the Proposed Acquisition) instead of S$40.6 million. SPIA's contribution of S$15.6 million in profit after tax for FY2001 may be attributable to CAO's share of the net profits of SPIA of approximately S$18 million offset by an amortisation charge of S$2.4 million. The S$15.6 million contribution from the Proposed Acquisition would amount to 27.8% of CAO's adjusted net profit for FY2001. EPS would increase accordingly from 9.1 cents to 12.7 cents following the Proposed Acquisition.

(iv) Gearing

S$'000	Before Proposed Acquisition	After Proposed Acquisition
Fixed deposits, cash and bank balances	139,970	62,402
Total borrowings	52,363	52,363
Shareholders' funds	146,698	146,698
Gearing — gross(1) (times)	0.36	0.36
Gearing — net(2) (times)	Net cash	Net cash

It is assumed that there are no restructuring costs and no transaction costs associated with the Proposed Acquisition. It is also assumed that there are no synergistic benefits arising from the Proposed Acquisition.

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

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

It is assumed that the CLH acquisition is completed after the Proposed Acquisition. Had the Proposed Acquisition been effective 31 December 2001, there would not be an impact on gearing, assuming that as the Proposed Acquisition is to be funded entirely by internal resources as stated on section 4A of this Circular, and the Company would be in a net cash position subsequent to the Proposed Acquisition.

7. EVALUATION OF THE PROPOSED ACQUISITION

In our evaluation of the Proposed Acquisition, we have examined the following relevant areas which have a significant bearing on our evaluation:–

(i) the Purchase Consideration and the basis upon which it was arrived;

(ii) the manner by which the Purchase Consideration is to be satisfied, and

(iii) the Directors' rationale in undertaking the Proposed Acquisition.

7.1 The Purchase Consideration

We understand that the Purchase Consideration was arrived at based on direct negotiations between representatives from CAO & CAOSC. A summary of some relevant information of SPIA is outlined as follow:

(a)	Audited NPAT for FY2001 (Attributable to CAOSC's 33% equity interest)	RMB 81.0million
	Price earnings ratio based on Purchase Consideration	4.5 times
(b)	Audited NTA as at 31 December 2001 (Attributable to CAOSC's 33% equity interest)	RMB 127.8million
	Premium of Purchase Consideration over the audited NTA	190%

In the event that SPIA's NTA as shown in SPIA's accounts as at 31 December 2001 does not accurately represent SPIA's actual NTA value, CAOSC shall immediately indemnify CAO against all of CAO's losses incurred therefrom. In the event of litigation, the extent of any remedy available to CAO can only be determined and assessed independently by the arbitration tribunal in the PRC.

Price Earnings Ratio (''PER'')

We believe that there is no listed company that may be exactly comparable to SPIA in terms of the scope of business activities. However, we have looked at Asia Pacific listed companies which are categorised under the ''Oil Refining & Marketing'' as well as ''Retail — Petroleum Products'' industry subgroups as defined in the financial information provider Bloomberg database. We believe that these industry sub-groups would give a fair indication as being generally comparable with SPIA.

Independent Directors should also note that the trading multiples of the Comparable Companies were extracted from Bloomberg. These trading multiples may have been prepared using different accounting standards and are presented for illustration only.

The PER details for the identified categories, as at 26th August 2002, are presented in the table below. For the purposes of average PER computation, we have excluded companies with PERs exceeding 100 times to better reflect an accurate picture. The detailed list of companies used in the above computations are enclosed at the end of our letter.

Bloomberg Industry Sub-group	Price Earnings Ratio (No. of times)				
	No. of Companies	Low	High	Average#	Average#
Energy, Oil & Gas, Oil Refining & Marketing	14	5.7	112	36.5	30.7*
Consumer, Cyclical, Retail — Petroleum Products	12	5.8	984	123	15.4**

\# Unweighted average

* Excludes 1 company with PER exceeding 100 times

** Excludes 3 companies with PER exceeding 100 times

Based on the PER table above, we note that the 4.5 times PER for the Proposed Acquisition falls below the entire PER ranges of the companies in the two selected industry sub-groups.

Price to Book Ratio

We have made a general comparison of the price to book ratio of Asia Pacific listed companies which are categorised under the ''Oil Refining & Marketing'' and ''Retail — Petroleum Products'' industry subgroups as defined in Bloomberg's database. We recognise that the composition of the assets and the way assets are utilised differ between companies. The comparison is made for general illustrative purposes only.

Bloomberg Industry Sub-group	Price to Book Ratio (No. of times)			
	No. of Companies	Low	High	Average#
Energy, Oil & Gas, Oil Refining & Marketing	20	0.38	7.9	1.6
Consumer, Cyclical, Retail — Petroleum Products	12	0.20	6.5	1.4

\# Unweighted average

Based on SPIA's audited net tangible assets of RMB 387 million (RMB127.8 million attributable to the 33% equity interest) for FY2001, the Purchase Consideration represents a 2.9 times the net tangible assets value. From the table above, we note that the price to net assets ratio falls in the higher end of the ranges of the two respective selected industry sub-groups.

SPIA is a going concern and utilises its fixed assets in its operations to generate profits. As SPIA is not a property based company, we are of the view that additional emphasis should be accorded to the PER as well as its growth prospects in the foreseeable future in determining the reasonableness of the Purchase Consideration.

Recent Initial Public Offerings (''IPO'') on the SGX-ST

Based on the audited PAT for FY2000 & FY2001, we note that SPIA would meet the profit criteria for a listing on the SGX-ST. In this regard, we have also made references to the historical PER and premium over NTA of companies recently listed on the Mainboard of the SGX-ST and the SGX Sesdaq since July 2002 (''Recently Listed Companies'') for illustrative purposes. By drawing a comparison does not imply that SPIA is qualified for a listing on the SGX-ST or any other recognised stock exchange as any listing application will have to be assessed by the relevant stock exchange. Independent Directors should note that SPIA is not comparable to the Recently Listed Companies as the operations of each company differ. Such differences include the industry and countries that each company operates in, the scale of operations as well as the competitve market positions of each company in their respective market places. Details of these companies are set out below.

Recent Listed Companies	Date of Listing	PER (times)(1)	Premium over NTA per share (%)(1)(2)
aspnetcentre Ltd	10 July 2002	15.4	308.2
Viz Brand Limited	11 July 2002	8.8	40.1
CityAxis Holdings Limited	12 July 2002	9.2	458.9
Darco Water Technologies Limited	15 July 2002	13.0	500.0
Futuristic Image Builder Ltd	17 July 2002	6.3	104.1
NTI International Limited	22 July 2002	8.3	81.8
Nera Electronics Ltd	25 July 2002	11.6	539.5
OKP Holdings Limited	26 July 2002	5.9	146.9
Cortina Holdings Limited	29 July 2002	4.6	46.5
Citiraya Industries Ltd	31 July 2002	46.3	892.0
High		46.3	892.0
SPIA (based on the Purchase Consideration)		**4.5**	**190**
Low		4.6	40.1
Unweighted average		12.9	**312**

Notes:–

(1) As extracted from the IPO prospectuses of the respective companies.

(2) Based on pre-flotation NTA.

The Historical PER of approximately 4.5 times is lower than the range of the historical PERs of the Recently Listed Companies of approximately 4.6 times to 46.3 times and is an approximately 65.1% discount from the weighted average PER of the Recently Listed Companies of approximately 12.9 times based on their respective issue prices.

The Purchase Consideration represents a premium of approximately 190% over the audited NTA of SPIA as at 31 December 2001, which is within the range of the premium of approximately 40.1% to approximately 892% over the NTAs of the Recently Listed Companies.

7.2 Payment Mode

The Purchase Consideration is to be satisfied in cash. Without taking into consideration the CLH acquisition, the Company has sufficient internal resources as at 31 December 2001 to make the payment.

7.3 Profit Track Record

SPIA commenced operations in 1999 and has reported an audited net profit after tax of RMB 131.4million and RMB 245.6 million respectively for the two completed financial years 2000 and 2001. We note that the Directors expect SPIA to contribute positively (although they are not in a position to quantify the amount) to the Company's net profit after tax for the current financial year.

7.4 Selling Prices fixed by the PRC Government

The selling prices of aviation fuel to both domestic and international flights are determined on a base price set by the PRC government . There is no assurance that the pricing policies adopted by the PRC Government will result in a lower, constant or higher profit margins (as compared to the completed financial years) for SPIA in the future. However, we noted that this policy was in place in the SPIA's initial two operating financial years.

7.5 Sole Supplier at Pudong Airport

Currently, both Hongqiao and Pudong airports serve international flights to Shanghai. By the end of October 2002, all international flights, and flights from Hong Kong and Macau to Shanghai, will arrive and depart from the Pudong Airport. Being the sole supplier of aviation fuel at the Pudong Airport, SPIA is expected to benefit positively in business volume when this happens.

7.6 Growth Prospects

The growth prospects of the Pudong airport will be linked to the economic growth of the PRC, the level of foreign investments in the PRC and the PRC's volume of trade. More specifically, the growth of Shanghai as well as its further development as the major financial centre in the PRC will have a direct bearing on the growth prospects of the Pudong airport.

8. OTHER RELEVANT FACTORS FOR CONSIDERATION

8.1 Rights and Interests

The Share Transfer Agreement was entered into on 23rd July 2002 and the completion is not expected till all conditions precedent are fulfilled. However, we note that the Company is entitled under the Share Transfer Agreement to all rights and interests, including but not limited to the rights in respect of the net assets of SPIA as at 31 December 2001 and the profits of SPIA made as from 1 January 2002 arising from or in relation to the said 33% equity interest.

We note that the Directors expect the Proposed Acquisition to have a positive effect on the profit of the Company in 2002, although the actual contribution to the Company will depend on the actual performance of SPIA, the completion of the Proposed Acquisition in 2002 itself and the impact of goodwill amortisation amounting to approximately S$2.4 million based on a 20-year amortisation period. Assuming the Proposed Acquisition had been effected at the beginning of FY2001, the operating profit before tax contribution to CAO attributable to the Proposed Acquisition would be 33% of SPIA's operating profit in FY2001, amounting to RMB95.4 million.

8.2 Risk Factors

We have, in the course of our evaluation assessed the commercial terms of the Proposed Acquisition and considered the transactions from the perspective of whether such terms are prejudicial to the interest of minority shareholders. However, we have not examined the underlying business and financial risks as well as the risks involving PRC rules and regulations. In this respect, we would like to draw your attention to Section 6 of the Circular.

We also refer to the first risk factor under Section 6 relating to the 5 parcels of land occupied by SPIA. Of the 5 parcels of land, 2 parcels were provided under the PRC land allocation system for a nominal amount in land use fees. Subsequent to the Proposed Acquisition and the conversion of SPIA into a sino-foreign joint venture, SPIA will apply to the relevant government authorities for the continued right to use the 2 parcels of allocated land. Although the Directors expect the approval for the continued use of the 2 parcels of allocated land to be granted by the relevant PRC government authorities, Independent Directors should note that the Company has no recourse under the Share Transfer Agreement to the Vendor in the event that such approval is not obtained. However, we understand that SPIA could apply to convert the said 2 parcels of allocated land into granted land. This would be subject to approval of the relevant PRC authorities and may involve a land grant fee which would affect the profits of SPIA depending on the amount involved. The Directors are of the view that the quantum involved would not be material.

9. RECOMMENDATION

In arriving at our recommendation, we have reviewed and evaluated all the factors which we deem to have significant relevance to our assessment, save for those factors which we have expressly excluded as in our Terms of Reference in Section 2 of this Letter. Factors which we have evaluated include representations made by the Company, the Directors and the management of the Company and SPIA, rationale of the Proposed Acquisition, the reasonableness of the Purchase Consideration, the NTA position of SPIA as at 31 December 2001 and PERs of companies in the two selected industry subgroups and recent IPOs on the SGX-ST.

Notwithstanding the above, we are of the opinion that the Proposed Acquisition are on normal commercial terms and are not prejudicial to the interests of the Shareholders. Our recommendation is predicated on the following primary factors:–

(a) the Directors are of the view that the Proposed Acquisition will result in synergies with the existing businesses of the Company;

(b) the historical PER of SPIA (based on the Purchase Consideration and the audited NPAT of SPIA for FY2001) of approximately 4.5 times is lower than that of all the companies belonging to the two selected industry subgroups. It represents a discount of approximately 85.3% and 70.8% from the average adjusted historical PER of approximately 30.7 times and 15.4 times respectively of the ''Oil Refining & Marketing'' as well as ''Retail — Petroleum Products'' industry subgroups as defined in Bloomberg's database as at 26 August 2002. The historical PER also represents a 65.1% discount from the average PER of recently IPOs on the SGX-ST; and

(c) the various qualitative factors that could contribute towards the earnings growth of SPIA in the future.

WE THEREFORE ADVISE YOU TO RECOMMEND THAT THE INDEPENDENT SHAREHOLDERS VOTE IN FAVOUR OF THE ORDINARY RESOLUTIONS IN RESPECT OF THE PROPOSED ACQUISITION, THE NOTICE OF WHICH IS SET OUT IN THE CIRCULAR.

We have prepared this letter for the use of the Independent Directors of the Company, to be incorporated into the Circular to Shareholders to be dated 30 August 2002, in connection with the Proposed Acquisition, being an interested person transaction as defined in Chapter 9 of the Listing Manual.

Yours truly,

For and on behalf of
HL Bank

Rosie Gan Country Head	Khong Choun Mun Head Investment Banking

Price Earnings Ratios
Bloomberg Sub-industry group
Energy, Oil & Gas, Oil Refining & Marketing

1	Hankook Shell Oil Co	5.7
2	Petronas Dagangan Bhd	6.1
3	Tonengeneral Sekiyu KK	8.8
4	SK Corporation	10.4
5	Sinopec Zhenhai Refining-H	10.7
6	Toa Oil Co Ltd	10.8
7	New Zealand Refining Co Ltd	10.9
8	Petron Corp	12.9
9	Japan Energy Corporation	33.6
10	Fuji Kosan Company Ltd	48.1
11	Nippon Oil Corp	62.5
12	S-Oil Corporation	79.3
13	Showa Shell Sekiyu KK	99.6
14	Sinopec Wuhan Petroleum -A	111.8
	Average (Exclude Sinopec Wuhan)	30.7
	Average (Include Sinopec Wuhan)	36.5

Price Earnings Ratios
Bloomberg Sub-industry group
Consumer, Cyclical, Retail — Petroleum Products

1	Sunautas Co Ltd	5.8
2	China Aviation Oil Singapore	6.5
3	Heunggu Oil Co Ltd	8.6
4	Choong Ang Oil Co Ltd	9.7
5	Daesung Industrial Co.	10.0
6	Unique Gas And Petrochemical	10.0
7	Uehara Sei Shoji Co Ltd	13.7
8	Peichi Oil Co Ltd	31.1
9	Kokura Enterprise Co Ltd	43.2
10	Sinopec Shandong Taishan Pet	107.6
11	Nissin Shoji Co Ltd	251.5
12	Hubei Tianfa Co Ltd-A	983.5
	Average (Exclude Sinopec Shandong, Nissin Shoji & Hubei Tainfa)	15.4
	Average (Include Sinopec Shandong, Nissin Shoji & Hubei Tainfa)	123.4

Price to Book Ratios
Bloomberg Sub-industry group
Energy, Oil & Gas, Oil Refining & Marketing

1	SK Corporation	0.38
2	Caltex Australia Limited	0.59
3	Sinopec Zhenhai Refining-H	0.63
4	Cosmo Oil Company Ltd	0.70
5	Singapore Petroleum Co Ltd	0.77
6	Japan Energy Corporation	0.80
7	Petron Corp	0.91
8	Bangchak Petroleum Pcl	0.92
9	Fuji Kosan Company Ltd	1.04
10	Hankook Shell Oil Co	1.05
11	Nippon Oil Corp	1.11
12	S-Oil Corporation	1.14
13	New Zealand Refining Co Ltd	1.21
14	Toa Oil Co Ltd	1.24
15	Petronas Dagangan Bhd	1.28
16	Showa Shell Sekiyu KK	1.39
17	Shell Refining Co (F.O.M.)	1.50
18	Tonengeneral Sekiyu KK	2.11
19	Sinopec Wuhan Petroleum -A	5.99
20	Ningxia Dayuan Chemical-A	7.86
	Average	1.63

Price to Book Ratios
Bloomberg Sub-industry group
Consumer, Cyclical, Retail — Petroleum Products

1	Daesung Industrial Co.	0.20
2	Nissin Shoji Co Ltd	0.21
3	Uehara Sei Shoji Co Ltd	0.23
4	Kokura Enterprise Co Ltd	0.23
5	Heunggu Oil Co Ltd	0.39
6	Sunautas Co Ltd	0.53
7	Choong Ang Oil Co Ltd	0.54
8	Peichi Oil Co Ltd	1.08
9	Hubei Tianfa Co Ltd-A	2.08
10	China Aviation Oil Singapore	2.32
11	Unique Gas And Petrochemical	2.63
12	Sinopec Shandong Taishan Pet	6.48
	Average	1.41

COMPILATION REPORT ON THE PROFORMA FINANCIAL INFORMATION

30 August 2002

The Board of Directors
China Aviation Oil (Singapore) Corporation Ltd
8 Temasek Boulevard
#31-02 Suntec Tower Three
Singapore 038988

Dear Sirs:

PROPOSED ACQUISITION OF 33% INTEREST IN SHANGHAI PUDONG INTERNATIONAL AIRPORT AVIATION FUEL SUPPLY COMPANY LTD

In accordance with the terms of our letter of engagement dated 30 April 2002, we have compiled the proforma financial information set out in pages 40 to 45. The compilation engagement was carried out in accordance with Singapore Standard on Auditing SSA 930: *Engagements to Compile Financial Information*.

The proforma financial information comprises the proforma consolidated balance sheet as at 31 December 2001 and the proforma consolidated profit and loss account for the year ended 31 December 2001, prepared on the basis set out on pages 43 to 44.

Management is responsible for the proforma financial information. We have not audited or reviewed the financial information and accordingly express no assurance thereon.

The proforma financial information and this report have been prepared for inclusion in the shareholders' circular to be dated 30 August 2002 relating to the proposed acquisition of 33% interest in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd (''SPIA''), for an aggregate purchase consideration of RMB 370 million in cash. While we have compiled the proforma financial information set out in pages 40 to 45 from the financial statements of various companies, we did not compile or prepare the financial statements of those companies.

Yours faithfully,

ERNST & YOUNG
Certified Public Accountants

Singapore

Partner: Mrs Lim Siew Koon

PROFORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

	CAO Group S$'000	CLH[1] Investment S$'000	After CLH Investment but before SPIA Acquisition S$'000	SPIA Acquisition S$'000	Proforma Group after CLH Investment and SPIA Acquisition S$'000
Sales	1,051,037	—	1,051,037	—	1,051,037
Cost of revenue	(1,006,209)	—	(1,006,209)	—	(1,006,209)
Gross profit	44,828	—	44,828	—	44,828
Other income	6,962	13,864	20,826	—	20,826
Distribution costs	(78)	—	(78)	—	(78)
Administration costs	(690)	—	(690)	—	(690)
Other operating costs	(5,368)	—	(5,368)	(2,452)	(7,820)
Profit from operating activities	45,654	13,864	59,518	(2,452)	57,066
Finance costs	(1,176)	(3,690)	(4,866)	—	(4,866)
Operating profit	44,478	10,174	54,652	(2,452)	52,200
Share of associated company's results	—	—	—	21,300	21,300
Profit before taxation	44,478	10,174	54,652	18,848	73,500
Taxation	(3,928)	(2,496)	(6,424)	(3,211)	(9,635)
Profit after taxation	40,550	7,678	48,228	15,637	63,865

PROFORMA CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2001

	CAO Group	CLH[1] Investment	After CLH Investment but before SPIA Acquisition	SPIA Acquisition	Proforma Group after CLH Investment and SPIA Acquisition
	S$'000	S$'000	S$'000	S$'000	S$'000
Property, plant and equipment	14,096	—	14,096	—	14,096
Investment in associated company	—	—	—	28,522	28,522
Goodwill arising on acquisition	—	—	—	49,046	49,046
Investment	—	108,390	108,390	—	108,390
Current assets					
Trade debtors	153,716	—	153,716	—	153,716
Other debtors	3,454	—	3,454	—	3,454
Cash and bank balances	139,970	(45,390)	94,580	(77,568)	17,012
	297,140	(45,390)	251,750	(77,568)	174,182
Deduct: Current liabilities					
Trade creditors	88,663	—	88,663	—	88,663
Accruals and other creditors	11,370	—	11,370	—	11,370
Amount due to holding company	9,235	—	9,235	—	9,235
Provision for taxation	2,825	—	2,825	—	2,825
Trust receipt payables	52,363	—	52,363	—	52,363
	164,456	—	164,456	—	164,456
Net current assets/(liabilities)	132,684	(45,390)	87,294	(77,568)	9,726
Total assets less current liabilities	146,780	63,000	209,780	—	209,780
Non-current liabilities					
Deferred taxation	(82)	—	(82)	—	(82)
Term loan due after 12 month	—	(63,000)	(63,000)	—	(63,000)
	146,698	—	146,698	—	146,698
Represented by:					
Capital and reserves					
Share capital	28,800	—	28,800	—	28,800
Share premium	69,927	—	69,927	—	69,927
Retained profits	29,971	—	29,971	—	29,971
Dividend reserve	18,000	—	18,000	—	18,000
	146,698	—	146,698	—	146,698

(1) As detailed in Section 7 of this Circular, the Company is presently seeking the shareholders' approval for the proposed acquisition of a 5% equity interest in Compania Logistica de Hidrocarburos, S.A. (''CLH''). Accordingly, the above proforma information of the Proforma Group is prepared after the proposed acquisition of CLH which were prepared making, *inter alia*, the following inputs and assumptions as stated in the CLH Circular dated 30 August 2002:–

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

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

(iii) 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 this illustration purposes, the tax expense is equivalent to the 18% withholding tax paid in Spain.

(iv) The basic consideration of the CLH proposed acquisition is S$108,390,000.

NOTES TO PROFORMA FINANCIAL INFORMATION

1. INTRODUCTION

1.1 The proforma financial information have been prepared for inclusion in the circular (the ''Circular'') to the shareholders of China Aviation Oil (Singapore) Corporation Ltd (''CAO'' or the ''Company'') dated 30 August 2002 in connection with the proposed acquisition of 33% in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd (''SPIA''), for an aggregate purchase consideration of RMB 370 million in cash.

1.2 Details of the proposed acquisition are set out in Section 4 of the Circular.

1.3 The Company, whose principal activities are those of trading in aviation oil and petroleum products, was incorporated in the Republic of Singapore on 26 May 1993 under the Companies Act as a private limited company. On 6 November 2001, the Company was converted to a public limited company and was admitted to the official list of the Singapore Exchange Securities Trading Limited (''SGX-ST'') on 6 December 2001.

2. BASES OF PREPARATION OF PROFORMA FINANCIAL INFORMATION

2.1 SPIA maintains its books and prepares its statutory financial statements in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the People's Republic of China. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain material respects from the International Accounting Standards (''IAS'') issued by the International Accounting Standards Committee (''IASC'') and interpretations issued by the Standing Interpretation Committee of the IASC. The attached financial information for the SPIA as of and for the two financial years ended 31 December 2001 and 2000 is based on the audited financial statements of SPIA adjusted for material differences to restate the results of operation and financial position in order to comply with IAS. There are no significant differences between Singapore Statements of Accounting Standards (''SAS'') and IAS.

2.2 The proforma financial information for the Proforma Group as of and for the financial year ended 31 December 2001 as set out in this report has been compiled based on the separate audited financial statements of the CAO Group and SPIA, after making such reclassification adjustments to the audited financial statements as we considered necessary to achieve consistency of presentation.

2.3 The proforma financial information is expressed in Singapore dollars and comprises the proforma balance sheet as at 31 December 2001 and the proforma profit and loss account for the financial year ended 31 December 2001 for the Proforma Group.

2.4 The objective of the proforma financial information of the Proforma Group is to show what the historical information might have been, had the Group as described above been in existence as of the respective date. However, the proforma financial information of the Group is not necessarily indicative of the results of the operations or the related effects on the financial position that would have been attained had the above-mentioned Group, actually existed earlier.

2.5 The audited financial information for the SPIA as of and for the two financial years ended 31 December 2001 and 2000 has been prepared in Renminbi (''RMB''). For inclusion in the proforma financial information, all assets and liabilities and the results of SPIA have been translated into Singapore dollar at the respective year-end rates. The respective rates used for 2001 and 2000 are as follows:–

RMB to 1 S$	**31.12.2001**	**31.12.2000**
Year-end rate	4.48	4.75

2.6 The proforma information of the Proforma Group is prepared on the basis of certain key assumptions made by the directors of CAO Group, which are set out below:–

(i) The aggregate consideration to be paid by CAO Group for the 33% issued and paid-up share capital of SPIA is RMB 370 million in cash.

(ii) Goodwill is computed based on the audited book values as at 31 December 2001, as opposed to fair values at the date of acquisition, of SPIA's identifiable assets and liabilities acquired. The goodwill is amortised over 20 years.

(iii) It is assumed that there are no restructuring costs and no transaction costs associated with the proposed acquisition.

(iv) It is assumed that there are no synergistic benefits arising from the acquisition.

3. SUMMARY OF PROFIT AND LOSS ACCOUNTS OF SPIA

		Year ended 31 December			
	Note	**2001**		**2000**	
		***RMB'000**	****S$'000**	***RMB'000**	****S$'000**
Sales		1,769,614	395,003	1,289,835	271,544
Cost of sales		(1,391,222)	(310,541)	(1,054,450)	(221,989)
Gross profit		378,392	84,462	235,385	49,555
Other income		1,695	378	643	135
Selling and distribution costs		(12,646)	(2,823)	(7,912)	(1,666)
Administration costs		(21,226)	(4,738)	(21,705)	(4,569)
Other operating costs		(25,645)	(5,724)	(24,425)	(5,142)
Profit from operating activities		320,570	71,555	181,986	38,313
Finance costs		(31,402)	(7,009)	(26,057)	(5,486)
Profit before taxation	4.1	289,168	64,546	155,929	32,827
Taxation		(43,591)	(9,730)	(24,557)	(5,170)
Profit for the year		245,577	54,816	131,372	27,657

4. NOTES TO PROFIT AND LOSS ACCOUNTS FOR SPIA

4.1 *Profit before taxation*

Profit before taxation is arrived at after charging/(crediting):				
Amortisation of land use rights	2,789	623	2,789	587
Depreciation of property, plant and equipment	28,906	6,452	28,248	5,947
Loss on disposal of property, plant and equipment	249	56	—	—
Loss on disposal of construction materials	—	—	483	102
Interest income	1,695	378	431	91
Interest expense on bank loans	31,703	7,077	26,075	5,489
Bank charges	49	11	51	11
Provision for bad and doubtful debts	1,438	321	429	90
Staff and related costs	10,559	2,357	7,139	1,503
Foreign exchange gains	(350)	(78)	(69)	(15)

5. SUMMARY OF BALANCE SHEETS FOR SPIA

	Note	Year ended 31 December 2001 *RMB'000	2001 **S$'000	2000 *RMB'000	2000 **S$'000
Non-current assets					
Property, plant and equipment		276,734	61,771	290,586	61,176
Construction in progress		115	26	10,405	2,191
Long-term investments		100	22	100	21
Land use rights		71,578	15,977	74,367	15,656
Current assets					
Inventories		97,960	21,866	224,087	47,176
Trade and other receivables		175,578	39,192	458,994	96,630
Prepayments		21	5	198	42
Tax recoverable		716	160	2,755	580
Cash and cash equivalents		140,924	31,456	93,993	19,788
Amount due from related companies		952	213	—	—
		416,151	92,892	780,027	164,216
Current liabilities					
Current portion of interest-bearing loans		352,500	78,683	546,000	114,947
Trade and other payables		9,702	2,166	11,568	2,435
Dividend payable		8,737	1,950	—	—
Amount due to related companies		5,046	1,127	97,482	20,523
		375,985	83,926	655,050	137,905
Net current assets		40,166	8,966	124,977	26,311
Non-current liabilities					
Interest-bearing loans		—	—	(182,500)	(38,421)
Deferred tax		(1,487)	(332)	(13,570)	(2,857)
		387,206	86,430	304,365	64,077
Represented by:					
Capital and reserves					
Share capital		200,000	44,643	200,000	42,105
Reserves		69,004	15,401	6,196	1,306
Retained profits		118,202	26,386	98,169	20,666
		387,206	86,430	304,365	64,077

* Audited by Ernst & Young, Hong Kong in accordance with International Accounting Standards.

** Converted to Singapore Dollars using year end exchange rates stated in Section 2.5.

VALUATION REPORT

To: China Aviation Oil (Singapore) Corporation Ltd

May 8, 2002

Dear Sirs,

TOPCHINA Appraisal had accepted the appointment by both the China Aviation Oil Supply Corporation and China Aviation Oil (Singapore) Corporation Ltd. According to the PRC's laws and regulations pertinent to valuation of assets, we adopted the commonly acceptable and fair methods for assets valuation, the prevailing codes of practice in the profession of valuation, and the processes that we believe are necessary.

The valuation is performed for the purpose of China Aviation Oil Supply Corporation's transfer of its 33% interest in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd. (hereinafter referred to as ''SPIA'') to China Aviation Oil (Singapore) Corporation Ltd. We hereby evaluate the overall assets owned by SPIA and reflect its fair market value as at December 31, 2001.

Valuation Scope

The scope of this valuation includes all the assets declared in the statements supplied by SPIA, including the statutory financial statements which were prepared in accordance with the relevant accounting principles in the PRC.

The assets under the valuation scope are SPIA's current assets, long-term investment, fixed assets (such as buildings, structures and attached installation, machinery and equipment, and vehicles), construction in progress, and the right of use of land.

Valuation Date

The valuation date was December 31, 2001.

Valuation method

Valuation basically relied on the replacement cost method. Our different methods applied on the various assets are depicted as below:–

1. MACHINE AND EQUIPMENT

The valuers inspected the machine and equipment and examined the technical information, date of purchase, production place, contracts, fees and expenses incurred, records of major equipment, reports of major incidents, as well as information on major technical adjustments. The valuers made enquiries with the facilities management personnel and operation personnel, and physically inspected the equipment in order to have a better understanding of their operating condition.

1.1 Determination of replacement cost

In determining the replacement cost, we factored the cost of the equipment or raw materials, transportation cost, installation cost, cost of providing anti-rusting maintenance and import fees.

1.2 Determination of rate of newness

The rate of newness is determined mainly based on the life of the machine and its actual period of usage. We also checked the technical condition, working environment and maintenance to decide on the rate of newness.

2. TRANSPORTATION VEHICLES

2.1 Determination of replacement cost

2.1.1 Our valuation scope covers the specialized vehicles which perform fuel-refilling for airplanes. To determine their replacement cost, we enquired SPIA's technical department about the cost of such purchase and the contracts, as well as checked directly with the suppliers, of the cost of the vehicles, inclusive of delivery cost, insurance premium and license fee. For ordinary vehicles, we determined their replacement costs based on the market price and the additional charges stipulated by the PRC government.

2.2 Determination of the rate of newness

For specialised refilling vehicles, the rate of newness is determined mainly based on their performance, appearance, maintenance and repair, mileage consumed and expected lifespan. For ordinary vehicles, their lifespan are regulated by standards set by the PRC government.

The rate of newness for equipment (vehicle) is computed as follows:–

Rate of newness = remaining life of equipment/(years already consumed + remaining life of equipment)

Valuation of equipment (vehicle) is derived from both the replacement cost and the rate of newness.

3. BUILDINGS AND STRUCTURES

We used the replacement cost method to value the buildings and structures. Our valuers performed an on-site inspection of the buildings and structures.

3.1 Determination of replacement cost

Replacement cost = construction and installation fees + other fees incurred during the construction period + capital cost

Construction and installation fees include all direct and indirect fees, profit and tax.

Other fees incurred during the construction period include expenses incurred at the early stage of construction and the developer's management fee.

Capital cost refers to the interest rate as at the valuation date and applicable on the outstanding loan for the purchase of fixed assets.

3.2 Determination of rate of newness

The rate of newness is determined based on the rate of current condition value, rate of residual value and experts' opinions upon physical inspection.

The determination of rate of newness for buildings and structures is described below.

3.2.1 For buildings, the applicable rate of newness is the simple average of the rate of current segmental value and the rate of residual value.

Comprehensive rate of newness (%) = (rate of current segmental value + rate of residual value)/2 x 100%.

Rate of current segmental value (%) = current segmental value/standard segmental value x 100%

Standard segmental value is determined based on the standard allocation of building costs to foundation, floor areas and installations such as water, heating, electricity and sanitary.

Current segmental value is assessed based on the examination of actual allocation of costs.

Rate of residual value (%) = (1- used life /economic life of the object) x 100%

3.2.2 Structure is valued using the rate of residual value, factoring in appropriate adjustments arising from experts' assessment.

4. CURRENT ASSETS

Current assets include cash, account receivables, other receivables, inventory and pre-allocated expenses. For current assets, we adopted the replacement cost method and the prevailing market price method.

4.1 Cash

Regarding cash on hand and bank deposits, we had verification count of cash and obtained bank statements as well as bank reconciliation statements to check the accuracy of balance. The verified figures were used in our valuation process.

4.2 Account receivables and other receivables

We verified the original documental proofs to gather information about the receivables turnover, collection situation and debtors' credit. Our valuation is based on the likelihood of collecting the receivables.

4.3 Inventory

Valuation of inventory was based on the replacement cost method and the prevailing market price method.

Included in our valuation scope are aviation fuel, auxiliary petrochemical products, procurement of raw materials, price margin between purchased costs and selling prices, and low-valued consumption goods.

Based on the book value of the inventory stated in the balance sheet as at the valuation date, the valuers together with the professional oil surveyors from SPIA, performed an on-site quantification of the aviation fuel in the barrels. Based on the records of inventory turnover, we adjusted the inventory value back to the valuation date. Based on our evaluation, the accounts reconciled with the physical amount. Our valuers are of the view that SPIA has good inventory management. The valuation took the audited book value less variances as basis.

Based on the list of low-value consumption goods in SPIA's report, we performed a verification count. The rate of newness for such consumption goods is currently based on prevailing market prices. To determine its value, we also considered the usage condition to ascertain its rate of newness.

4.4 Expenses pending for allocation

We took the audited book value as the appraised value.

5. THE RIGHT OF USE OF LAND

We carried out valuation based on the replacement cost method and the land value coefficient method, after taking into account information provided by the entrusted party, our on-site inspection of the land and analysis of collated market research information.

6. LIABILITY

Liability includes short-term borrowing, account payables, other payables, wages payables, tax payables and accrued expenses. After verification, we took the book value of the liability as at December 31, 2001 as the appraised value.

Conclusion

Based on the above-mentioned valuation procedure and method, and on the premise of on-going concern, SPIA as at valuation date of December 31, 2001 was valued to have total assets of RMB789,245,500, total liability of RMB348,985,600, and net assets of RMB440,259,900. Out of which, China Aviation Oil Supply Corporation's 33% interest in SPIA was valued at RMB145,285,800.

The results of the appraisal can be classified as follows:–

(in '000 RMB)

Item	**Appraised value**
Current assets	370,086.9
Long-term investment	100.0
Fixed assets	273,462.7
Intangible assets	135,266.3
Other assets	10,329.6
Total assets	**789,245.5**
Current liability	166,485.6
Long-term liability	182,500.0
Total liability	**348,985.6**
Net assets	**440,259.9**

Notes on special events

The valuation in this report is based on the prevailing external economic environment as at valuation date and on the premise that the usage of assets remains unchanged. The opinion expressed in this report is intended solely for the purposes stated in the report.

This report is completed on the basis of the essential documents, data and materials provided by the entrusting party, which shall be responsible for the reality and reliability of the financial reports and relevant documents and data it has provided, and shall bear the legal responsibilities associated correspondingly. The appraisal conclusion of this report is the objective and fair reflection on the value of the assets of the company evaluated on the day of December 31 of year 2001. The appraising company shall not bear any responsibility for the change of value of the assets stated in this report after the reference day.

Yours faithfully,

For and on behalf of
TOPCHINA Assets Appraisal Co., Ltd

Zhu Jun
CPV
Vice Chairman

ADDITIONAL INFORMATION

1. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

(a) Directors

Based on the Register of Directors' Shareholdings, none of the Directors have any interest in the shares and debentures of the Company and related corporations.

(b) Substantial Shareholders

Based on the Register of Substantial Shareholders, the substantial Shareholder of the Company and its interest in the Shares as at 26 August 2002 are as follows:–

Name of Shareholder	Direct Interest	%	Deemed Interest	%
CAOSC	432,000,000	75.0	—	—

2. MATERIAL LITIGATION

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 might materially affect the position of the Company or its subsidiary.

3. CONSENTS

DBS Bank has given and has not withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

HL Bank has given and has not withdrawn its written consent to the inclusion in this Circular of its name and letter and all references thereto in the form and context in which they appear in this Circular.

Ernst & Young, Singapore Certified Public Accountants, has given and has not withdrawn its written consent to the inclusion in this Circular of its name and compilation report and all references thereto in the form and context in which they appear in this Circular.

Ernst & Young, Hong Kong Certified Public Accountants, has given and has not withdrawn its written consent to the inclusion in this Circular of its name and compilation report and all references thereto in the form and context in which they appear in this Circular.

Topchina Appraisal has given and has not withdrawn its written consent to the inclusion in this Circular of its name and valuation report and all references thereto in the form and context in which they appear in this Circular.

4. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiary within two years preceding the date of this Circular and are or may be material:–

(a) the Option dated 28 May 2001 for purchase of the property at 8 Temasek Boulevard, #31-02, Suntec Tower Three, Singapore 038988;

(b) the Service Agreement dated 9 November 2001 between the Company and Mr Chen Jiulin;

(c) the Management and Underwriting Agreement dated 26 November 2001 between the Company and DBS Bank;

(d) the Placement Agreement dated 26 November 2001 between the Company and DBS Bank;

(e) the Receiving Bank Agreement dated 26 November 2001 between the Company and DBS Bank;

(f) the Depository Agreement dated 23 November 2001 between the Company and CDP to which CDP agreed to act as depository for the Company;

(g) the Sale and Purchase Agreement dated 31 July 2002 between CAO and Repsol-YPF S.A., Petroleos Del Norte S.A., Compania Espanola De Petroleos S.A., BP oil Espana S.A. in connection with the CLH Acquisition; and

(h) the Share Transfer Agreement in connection with the Proposed Acquisition, as described on page 15 of this Circular.

5. RESPONSIBILITY STATEMENTS

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the facts stated and the opinions expressed in this Circular are fair and accurate in all material respects as at the date hereof and that there are no other facts the omission of which would make any statement in this Circular misleading and they jointly and severally accept responsibility accordingly.

6. DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at the registered office of the Company at 8 Temasek Boulevard, #31-02 Suntec Tower Three, Singapore 038988 from Monday to Friday (excluding public holidays) and between 9 a.m. and 4 p.m. from the date of this Circular up to and including the date of the EGM:–

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

(b) the annual reports of the Company for the two financial years ended 31 December 2000 and 2001;

(c) the letters of consent referred to in paragraph 3 above;

(d) the material contracts referred to in paragraph 4 above;

(e) the audited financial statements of SPIA for the financial year ended FY2000 and FY2001;

(f) the Valuation Report;

(g) the Sale and Purchase Agreement dated 31 July 2002 between CAO and Repsol-YPF S.A., Petroleos Del Norte S.A., Compania Espanola De Petroleos S.A., BP oil Espana S.A. in connection with the CLH Acquisition; and

(h) the Share Transfer Agreement in connection with the Proposed Acquisition, as described on page 15 of this Circular.

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 China Aviation Oil (Singapore) Corporation Ltd (the ''Company'') will be held at Suntec Singapore International Convention & Exhibition Centre, Meeting Room 307, Level 3, 1 Raffles Boulevard, Suntec City, Singapore 039593 on 23 September 2002 at 11.00 a.m. for the purpose of considering and, if thought fit, approving with or without amendments the following ordinary resolutions:–

ORDINARY RESOLUTIONS

That:–

(a) approval be and is hereby given for the acquisition by China Aviation Oil (Singapore) Corporation Ltd (the ''Company'') from China Aviation Oil Supply Corporation (''China Aviation (China)'') of 33% interest in Shanghai Pudong International Airport Aviation Fuel Supply Corporation Ltd for a cash consideration of RMB370 million (the ''Acquisition''), on the terms and conditions of the Share Transfer Agreement relating to the Acquisition dated 23 July 2002 between (1) the Company and (2) China Aviation (China) (the ''Share Transfer Agreement''); and

(b) the Directors be and are hereby authorised to take all steps that are necessary or, in the opinion of the Directors, desirable to give effect to and complete the Share Transfer Agreement and to make such amendments (not being of a material nature) to any of the terms of the Share Transfer Agreement as they think necessary or desirable.

By Order of the Board

Adrian Mark Chang Choon Siew
Company Secretary

30 August 2002

Notes:–

(1) A Shareholder entitled to attend and vote at a meeting of the Company 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. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

(2) An instrument of proxy must be deposited at the registered office of the Company at 8 Temasek Boulevard, #31-02 Suntec Tower Three, Singapore 038988 not less than 48 hours before the time appointed for the holding of this Meeting or adjourned Meeting; otherwise the instrument of proxy shall not be treated as valid.

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CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

(Incorporated in the Republic of Singapore)

PROXY FORM

I/We ____ (Name)

of ____ (Address)

a Shareholder/Shareholders of China Aviation Oil (Singapore) Corporation Ltd (the "Company"), hereby appoint Mr/Mrs/Ms

Name	Address	NRIC/ Passport Number	Proportion of Shareholdings (%)
and/or (delete as appropriate)			

or failing him, the Chairman of the Meeting, 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 Suntec Singapore International Convention & Exhibition Centre, Meeting Room 307, Level 3, 1 Raffles Boulevard, Suntec City, Singapore 039593 on 23 September 2002 at 11.00 a.m. and at any adjournment thereof.

If you wish your proxy/proxies to vote for or against the resolutions set out in the Notice of Meeting and summarised below, please indicate with an "X" in the appropriate box. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her discretion, as he/they will on any other matter arising at the Meeting and at any adjournment thereof.

	No. of shares entered against your name:
Central Depository (Pte.) Limited Register	
Register of Shareholders	

	FOR	AGAINST
ORDINARY RESOLUTIONS RELATING TO:–		
(a) approval be and is hereby given for the acquisition by China Aviation Oil (Singapore) Corporation Ltd (the "Company") from China Aviation Oil Supply Corporation ("China Aviation(China)") of 33% interest in Shanghai Pudong International Airport Aviation Fuel Supply Corporation Ltd for a cash consideration of RMB 370 million (the "Acquisition"), on the terms and conditions of the share transfer agreement relating to the Acquisition dated 23 July 2002 entered into between (1) the Company and (2) China Aviation (China) (the "Share Transfer Agreement"); and		
(b) the Directors be and are hereby authorised to take all steps that are necessary or, in the opinion of the Directors, desirable to give effect to and complete the Share Transfer Agreement and to make such amendments (not being of a material nature) to any of the terms of the Share Transfer Agreement as they think necessary or desirable.		

Notes:–

(1) Please indicate your vote "For" or "Against" with a "X" within the box provided.

(2) If you wish to exercise all your votes "For" or "Against", please indicate with a "X" within the box provided. Alternatively, please indicate the number of votes as appropriate.

Signed this __________ day of _____________ 2002

____

Signature(s) of Shareholder(s) or Common Seal

IMPORTANT: PLEASE READ NOTE OVERLEAF

Notes:–

(1) Please insert the total number of Shares held by you. If you have Shares entered against your name in 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 entered against your name in the Register of Shareholders of the Company, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Shareholders, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Shareholders. If no number is inserted, this instrument of proxy will be deemed to relate to all the Shares held by you.

(2) A Shareholder entitled to attend and vote at a meeting of the Company 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.

(3) Where a Shareholder appoints two proxies, the appointments shall be deemed to be alternative unless he specifies the proportion of his shareholdings (expressed as a percentage of the whole) to be represented by each proxy.

(4) This instrument of proxy, duly completed (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 at 8 Temasek Boulevard, #31-02 Suntec Tower Three, Singapore 038988 not less than 48 hours before the time appointed for the holding of the Meeting or adjourned Meeting.

(5) This instrument of proxy must be signed by the appointor or his duly authorised attorney, or, if the appointor is a body corporate, signed under its common seal or by its attorney or duly authorised officer of the corporation.

(6) A corporation which is a Shareholder may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with section 179 of the Companies Act, Chapter 50 of Singapore.

(7) The Company shall be entitled to reject this instrument of proxy if it is incomplete, not properly 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 a Shareholder whose Shares are entered against his name in the Depository Register, the Company may reject this instrument of proxy lodged if the Shareholder, being the appointor, is not shown to have Shares entered against his name in the Depository Register 48 hours before the time fixed for holding the meeting, as certified by The Central Depository (Pte) Limited.

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