



ANNOUNCEMENT

China Aviation Oil (Singapore) Corporation Ltd announces findings of PricewaterhouseCoopers pursuant to the completion of its investigations

1. Introduction

China Aviation Oil (Singapore) Corporation Ltd (“the Company”) wishes to announce that PricewaterhouseCoopers (“PwC”), the Special Auditors appointed by the Company on 30 November 2004 at the direction of the Singapore Exchange Ltd under Rule 704(12) of the Listing Rules, has completed its investigations into the circumstances which gave rise to the losses that were incurred by the Company as a result of speculative trading in oil options. A copy of PwC’s Executive Summary (“the Report”) setting out their findings and conclusions is enclosed.

The Company had on 29 March 2005 announced and published PwC’s findings in its initial report entitled “Statement of Phase I Findings”. In the initial report, PwC expressed their views on the circumstances leading to the losses without examining the issues pertaining to responsibilities and the causes. This final report contains PwC’s views on this area.

2. Results of Investigation

Pursuant to their investigations, PwC has concluded that the substantial losses suffered by the Company was caused by the significant risks that resulted from the restructuring of the Company’s options portfolio that began in January 2004.

The upward movement in oil prices caused an exponential increase in the negative MTM value of the options portfolio. The Company was then faced with mounting margin calls which it was eventually unable to cope with financially. This led to the Company’s current financial situation.

The Report also concludes that the following other factors contributed individually or collectively to the losses which the Company suffered as a result of its speculative options trading :

- a) a view of the trend of oil prices from 4th quarter 2003 which subsequently proved incorrect;
- b) a desire not to disclose losses in 2004;
- c) a failure to value the options portfolio in accordance with industry standards;

- d) a failure to appropriately recognise the correct value of the options portfolio in the Company's financial statements;
- e) the absence of proper and stringent risk management procedures specifically for options trading;
- f) the willingness by the management to override risk management policies that ought to have been obeyed; and
- g) a failure on the part of the Audit Committee in particular and the Board in general to fulfil their duties in relation to risk management and controls applicable to the Company's speculative derivatives trading.

3. The Company's Response

The Company wishes to state that the response of the Company herein is a first response to the PwC findings in the interest of providing an update on the conclusion of the investigations and the Company reserves its position to make further comments subsequently if deemed necessary or appropriate.

Following the Company's previous announcement on the PwC initial report on 29 March 2005, the Company (together with its external financial and legal advisors) reviewed the situation and took various steps. This included conducting a study on improvement of corporate governance within the Company. In addition the Special Task Force appointed by the Company continued to lead the restructuring, investigation and rehabilitation process as well as to supervise the day to day operations of the Company.

In addition to the above measures, and with PwC's investigations completed, the Company now intends to form a Committee (which will work with the external financial and legal advisors) to study the findings and views expressed in the Report and make recommendations to the Company on specific remedial or disciplinary actions which the Company ought to take moving forward.

In particular, the Committee will study the conduct or misconduct of various individuals named in the Report, the various areas of lapses or failures in the Company's risk management system and the corporate governance areas which need to be tightened, improved or implemented. This Committee will work closely and consult with the New Investor in this process to make the appropriate recommendations to the Company. The Company will thereafter make announcements on its action plans after the Committee has completed its work and submitted its recommendations as and when appropriate.

In addition, the Company is currently working with its external auditors on the audit of its financials for the year ended 31 December 2004 and will take into account the relevant findings of the Report. The Company will make the appropriate announcements on its financial results when the audit has been completed.

The Company fully accepts that there are many lessons to be learnt from this episode which must be put into practice in future to ensure that this type of incident does not repeat itself. The Company also acknowledges the need to improve the management and corporate governance within the Company and is fully committed to do so as part of its overall restructuring efforts.

With greater clarity on the past events and circumstances as a result of the conclusion of PwC's investigations, the Company is of the view that it is in a better position now to move forward with the debt and equity restructuring exercise in a positive manner. In this regard, the Company looks forward to a successful outcome at the Creditors' Meeting to be held on 8 June 2005 to consider and approve its Scheme of Arrangement dated 24 May 2005.

The Company has been informed by its parent, China Aviation Oil Holding Company, that they are in discussions with Temasek Holdings Pte Ltd.

Dated 3rd June 2005

BY ORDER OF THE BOARD
CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD