China Aviation Oil (Singapore) Corporation Ltd
中国航油（新加坡）股份有限公司

China Aviation Oil Announces Oil Tank Farm Investment

29/12/03

SINGAPORE, 29 December 2003 - The Board of Directors of China Aviation Oil (Singapore) Corporation Ltd ("CAO") wishes to announce that CAO has entered into an agreement to acquire 80% of the Shuidong oil storage facilities asset from Shenzhen Juzhengyuan Petrochemical Co Ltd ("JZY"). A Joint Venture between CAO and JZY will be established to operate this oil tank farm and carry out other oil-related activities.

CAO has purchased an 80% equity interest, including land amounting to 76,732 square meters, for a total consideration of RMB18.4 million in cash (equivalent to S$3.83 million at S$1 = RMB4.8). There are six tanks of 5,000 cubic metres ("CBM") each and two tanks of 10,000 CBM each. Current total storage capacity is thus 50,000 cubic metres; the facilities are structured to store different types of oil products. The oil tank farm facilities have an economic useful life of at least 50 years, and so far have been in use for 10 years. Based on the existing land area, the oil tank farm can be expanded to more than double the existing capacity.

The oil tank farm is connected by a short pipeline to the neighbouring Maoming Oil Refinery, China's second-largest refinery. It is close to an oil jetty and single point mooring in Southern China, which is convenient for its use. Currently, it supplies oil products to the southern part of China, Vietnam and elsewhere, and is within close proximity to the country's third largest airport, Guangzhou Baiyun International Airport, and Hong Kong International Airport (which currently sources jet fuel from this facility). The oil tank farm is also well positioned to supply jet fuel to Shenzhen's International airport, China's fifth largest, as well as the Zhuhai , Beihai and Zhanjiang airports.

In 2003, the total stored volume reached 650,000 CBM, making the turnover rate around 13 times. Based on a feasibility study report undertaken by CAO, this project's return on investment (ROI) is at least 21% or 4.8 times historical P/E. Given the potential benefits, CAO adopts the view that the negotiated price, compared to an internally estimated replacement cost of around RMB50 million (equivalent to S$10.4 million) is attractively valued, and the Company further anticipates good returns in the future.

Mr. Chen Jiulin, CAO's Managing Director and CEO, said, "This investment is a prelude to additional investments in future. Currently we have around S$350 million of investable funds at our disposal. However, when we evaluate an investment, we never rush to enter into an agreement prematurely. Instead, we focus on the quality of the project concerned so as to enhance shareholder value. We also focus on how a project supports our three-pronged strategy comprising strategic investments, international oil trading and jet fuel procurement. Our investment principles continue to focus on oil-related, infrastructure facilities offering synergies with our current businesses. This investment clearly satisfies these criteria."

China's oil demand is expected to grow an average of 12% annually over the next two decades. By 2020, oil demand will reach 450 million metric tonnes. The dependence on the oil supply sources outside China will be approximately 60% compared to current 30%, of which, two-thirds are expected to be consumed in Southern China*.

With this strong background, following the acquisition, CAO will be able to use this oil tank farm to store jet fuel and supply local and nearby airports. It can also be leased to nearby customers for their oil storage needs. Moreover, it can serve as a backup for CAO to broaden its international oil trading business and market coverage in Southern China.

CAO's Chairman, Mr Jia Changbin added: "This timely investment will give us a competitive edge to tap into China's strong demand, and further strengthen CAO's foothold in the Chinese oil market. CAO's future growth depends on both domestic and international markets, as well as imports of jet fuel and other oil products. In other words, CAO aims to leverage on China and to go global. This project constitutes a step in accordance with such philosophies."

The investment marks a couple of firsts. It is the first time that CAO has invested in oil-related, fixed infrastructure assets with controlling shares rather than in the equity of other companies. While the scale of this project is relatively small, it marks the beginning of a new phase in the Company's development. This is also the first time an overseas Chinese-funded SOE (state-owned enterprise) is cooperating with a local Chinese private-sector company. It is in the private sector that China's greatest dynamism and growth are seen, and the tie-up is thus one of the steps through which CAO can leverage on China's fast-growing economy.

This investment will be funded through CAO's internal resources. It will have no material effect on CAO's consolidated NAV per share and earnings per share for the financial year ending 31 December 2003, but will have a positive impact on CAO's earnings from FY2004 onwards.

No Director, controlling shareholder or substantial shareholder in the Company has a direct interest in the above transaction.

Under the Agreement, CAO and JZY will inject this facility to form an 80/20 Joint Venture. This Joint Venture is subject to the final approval of Chinese authorities.

*(*Source: http://210.51.8.60/home/finance/cjxw/200312/15/172260.html)*

By Order of the Board
Adrian Chang

Company Secretary