



## **CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD TO PROPOSE SCHEME OF ARRANGEMENT**

The Board of Directors of China Aviation Oil (Singapore) Corporation Ltd (the “Company”) wishes to announce that the Company has suffered significant losses from speculative oil derivative trading. As at 29 November 2004, the Company estimates that the total cumulative losses (both realised and unrealised) incurred by the Company is approximately US\$550 million.

To address the debt that has arisen from the Company’s trading losses, the Company will be proposing a scheme of arrangement with its creditors for the settlement of all existing debts and liabilities.

Accordingly, the Company has, on 29 November 2004, applied for and obtained, an order from the High Court of Singapore (the “Court”) pursuant to Section 210 of the Companies Act of Singapore for the Court to fix a date for the hearing of an application by the Company to convene a meeting of its creditors for the purpose of considering and if thought fit, approving with or without modification a scheme of arrangement proposed to be made between the Company and its creditors.

### **Background to Losses From Derivative Trading**

The Company commenced trading in oil derivatives on its own account from 2003. Whilst part of the derivative trading was for hedging purposes, the Company also engaged in speculative derivative trading.

In October 2004, international oil prices rose steeply leading to the Company having to face significant margin calls on its open derivative positions. The Company was unable to meet some of the margin calls arising from its speculative derivative trades, resulting in the Company being forced to close the positions with some of the counter-parties. From 26 October 2004 to date, the accumulated losses from these closed positions amounts to approximately US\$390 million. The Company is in the process of closing the remaining outstanding positions and estimates the losses from the closure of these positions to be approximately US\$160 million.

### **Action Taken by The Company**

Since the advent of the above liquidity issues by the Company, the Company has taken the following steps:

1. Shareholder's Loan from China Aviation Oil Holdings Company ("CAOHC")

The Company has requested, and CAOHC granted to the Company, a shareholder's loan of approximately US\$100 million for the Company to meet its liquidity requirements. The loan has been fully disbursed and applied to meet the margin calls and to satisfy part of the realised losses suffered by the Company.

2. Immediate termination of the Company's speculative oil derivative trading activities

To check the mounting losses suffered by the Company from the increasing oil prices, the Company has halted all its speculative oil derivative trading activities with the exception of the closing at the remaining open positions.

3. Suspension of duties of Mr Chen Jiulin

The Board of Directors further wishes to announce the suspension of duties of Mr Chen Jiulin, the Chief Executive Officer of the Company, with immediate effect pending the release of the report of the Special Investigation referred to below.

4. Special Investigation

The Exchange, pursuant to Rule 704(12) of the Listing Manual, has required the Company to instruct PricewaterhouseCoopers as special investigative accountant to review and investigate the Company's affairs relating to the incurrence of the loss and its surrounding circumstance and report its findings to the Exchange ("Special Investigation").

Pending the release of the Special Investigation report by PricewaterhouseCoopers, the Company believes it is inappropriate to make any further comments on the circumstances relating to the incurrence of the derivative trading losses by the Company.

5. Appointment of a Special Task Force

The Board of Directors, with the support of CAOHC, has appointed a special task force ("Special Task Force") led by Ms Gu Yanfei, General Manager, Investment Department of CAOHC and director of the Company, with the authority of the Board to lead the restructuring, investigation and rehabilitation process as well as to supervise the day-to-day operations of the Company on its behalf. The Special Task Force shall continue to manage the critical affairs of the Company until further announcement.

6. Negotiation with creditors

The Company has commenced negotiations with some of its creditors to structure a settlement and allow the Company more time to work out a rescue package to maintain the Company's financial position. While some of the Company's creditors have been cooperative, certain of the creditors have issued demand letters and have threatened immediate legal action against the Company. The Company hopes that it will have the time to put together a settlement proposal acceptable to all its creditors.

7. The proposed scheme of arrangement

Due to the pressing payment demands from the counter-parties to the Company's derivative contracts, the Company believes that there is little or no reasonable prospect of the Company having sufficient cash-flow to meet its immediate current liabilities in the short term with its current resources and continue with its core business of jet fuel procurement without a stay in the proceedings and claims faced by the Company.

Accordingly, the Company intends to propose a restructuring of the Company's debt by way of a scheme of arrangement. The Company undertakes that any cash that it receives from its receivables and assets as at 30 November 2004 shall be utilised solely for continuance of the Company's core business and daily operations in order to preserve shareholder value until a settlement is reached. If the cash from its receivables and assets is not sufficient for the above purposes, CAOHC will provide shareholder's loans or credit support to the Company.

The Company will be in active discussions with its creditors to restructure its debt obligations and will keep shareholders informed of the progress.

8. Support from CAOHC

The Company has received a statement of support from CAOHC expressing its continued interest and support and that it will assist the Company in restructuring of its outstanding debts.

9. Participation in proposed restructuring efforts of the Company by CAOHC and Temasek Holdings (Private) Limited ("Temasek")

In addition, the Company has been informed that CAOHC has approached Temasek to seek Temasek's participation in the proposed restructuring of the Company that would be needed for the Company to remain viable in the future. Temasek currently has a deemed indirect stake of less than 2% in the Company, and is not aware of any other material interests in the Company, nor is it aware of any existing material contracts or business arrangements with the Company or CAOHC. Temasek does not have any stake in CAOHC.

Temasek has expressed an indicative interest in exploring a participation as an investor in the Company's restructuring efforts, and which participation currently contemplates the following:-

- (a) CAOHC and Temasek would, in aggregate, inject funds of up to US\$100 million (currently expected to be in equal proportions, that is to say, US\$50 million each) into the Company as part of its restructuring. It is the intention that CAOHC and Temasek will hold (in the aggregate) a majority equity stake in the restructured Company; and
- (b) the injection of funds would be on the basis of (i) satisfactory resolution of all issues relating to the Company, (ii) the scheme of arrangement (including the settlement of outstanding and/or contingent claims against the Company) being approved, sanctioned and implemented in accordance with section 210 of the Singapore Companies Act, and (iii) the other terms and conditions (including the

obtaining of relevant approvals/waivers) in connection with the injection, all being commercially acceptable to Temasek.

It should be noted that pending the finalisation of discussions between the Company, CAOHC and Temasek, and the entry into formal legal documentation relating to the proposed restructuring, CAOHC and Temasek would have no binding obligation to proceed with the restructuring of and investment in the Company. The Company is continuing to pursue active discussions with CAOHC and Temasek in relation to the terms of the proposed restructuring and investment, and will make the appropriate announcements as developments take place.

### **Restructuring Proposal**

CAOHC will continue to assist the Company to put together and propose a restructuring proposal for all the Company's creditors in the near future. The Company hopes to put together a restructuring proposal acceptable to all the interested parties and allow the Company to continue its business operations.

### **Suspension of trading in the Company's shares**

In the meantime, the Directors deem it necessary to request for suspension of trading in the Company's shares until a satisfactory arrangement has been agreed with the creditors of the Company or a scheme of arrangement of the Company's debts has been sanctioned by the Court. Subject to the confirmation of the Exchange, the trading of the shares of the Company will remain suspended until further notice.

### **Responsibilities of the Board of Directors**

The Directors of the Company (including those who have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated in this announcement are fair and accurate and that no material facts have been omitted from this announcement, and they jointly and severally accept responsibility accordingly. Where any information has been extracted from published or publicly available sources, the sole responsibility of the Directors of the Company has been to ensure through reasonable enquiries that such information has been accurately extracted from such sources or, as the case may be, reflected or reproduced in this announcement.

By Order of the Board

Adrian Chang  
Company Secretary  
30 November 2004

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