

CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

Second Quarter 2003 Financial Statement

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3),
HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the
corresponding period of the immediately preceding financial year

GROUP	2Q 2003	2Q 2002	inc/(decr)	1H 2003	1H 2002	inc/(decr)
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Revenue	465,838	402,606	63,232	1,001,952	615,598	386,354
Cost of Revenue	(459,382)	(391,739)	67,643	(981,862)	(591,038)	390,824
Gross Profit	6,456	10,867	(4,411)	20,090	24,560	(4,470)
Other Income	3,381	2,926	455	7,426	3,350	4,076
Distribution costs	(69)	(50)	19	(136)	(59)	77
Administration costs	(247)	(201)	46	(374)	(299)	75
Other operating costs	(4,356)	(4,584)	(228)	(9,041)	(7,501)	1,540
Profit from operating activities	5,165	8,958	(3,793)	17,965	20,051	(2,086)
Finance costs	(544)	(418)	126	(1,012)	(715)	297
Share of result of associated company	8,685	0	8,685	18,053	0	18,053
Profit Before Taxation	13,306	8,540	4,766	35,006	19,336	15,670
Taxation	(2,046)	(605)	1,441	(5,614)	(1,804)	3,810
Net Profit After Tax	11,260	7,935	3,325	29,392	17,532	11,860

Note:

1)

*Profit from operating activities is derived
after charging the following items:-*

<i>Interest on borrowing</i>	(320)	(209)	111	(503)	(301)	202
<i>Depreciation and amortization</i>	(798)	(146)	652	(1,597)	(288)	1,309
<i>FX gain/(loss)</i>	808	(2,347)	3,155	(87)	(2,993)	2,906

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement
as at the end of the immediately preceding financial year

	Group			Company		
	As at 30-Jun-03 S\$'000	As at 31-Dec-02 S\$'000	incr/(decr) S\$'000	As at 30-Jun-03 S\$'000	As at 31-Dec-02 S\$'000	incr/(decr) S\$'000
Fixed Assets	17,567	17,758	(191)	17,416	17,597	(181)
Subsidiary company	0	0	0	542	385	157
Associated company	109,500	95,332	14,168	79,311	79,248	63
Investment	109,476	109,328	148	109,476	109,328	148
Current Assets						
Inventory	7,677	10,548	(2,871)	7,665	10,548	(2,883)
Trade Debtors	81,373	107,118	(25,745)	81,251	107,097	(25,846)
Other Debtors, deposits and prepayments	46,996	43,711	3,285	46,875	43,686	3,189
Amount due from Related Company	300	292	8	300	200	100
Fixed deposits	56,547	46,724	9,823	56,517	46,694	9,823
Cash and bank balances	8,056	6,183	1,873	7,638	5,858	1,780
	200,949	214,576	(13,627)	200,246	214,083	(13,837)
Current Liabilities						
Trade Creditors	93,465	86,411	7,054	93,484	86,372	7,112
Accrued staff costs	8,229	6,336	1,893	8,203	6,270	1,933
Other creditors and accruals	34,841	44,505	(9,664)	34,830	44,485	(9,655)
Amount due to Related Company	78,246	0	78,246	78,246	0	78,246
Amount due to Holding Company	3,511	78,246	(74,735)	3,511	78,246	(74,735)
Amount due to Subsidiary company	0	0	0	0	173	(173)
Trust receipt payables	15,918	41,675	(25,757)	15,918	41,675	(25,757)
Provision for taxation	2,836	3,007	(171)	2,834	2,996	(162)
	237,046	260,180	(23,134)	237,026	260,217	(23,191)
Net Current (Liability)/Assets	(36,097)	(45,604)	9,507	(36,780)	(46,134)	9,354
Deferred tax	(82)	(82)	0	(82)	(82)	0
	200,364	176,732	23,632	169,883	160,342	9,541
Capital and reserves						
Share capital	34,560	28,800	5,760	34,560	28,800	5,760
Share premium	63,977	69,737	(5,760)	63,977	69,737	(5,760)
Accumulated profits	101,827	72,435	29,392	71,346	56,045	15,301
Dividend reserve	0	5,760	(5,760)	0	5,760	(5,760)
	200,364	176,732	23,632	169,883	160,342	9,541

On 23 April 2003, the immediate and ultimate holding company was changed to China Aviation Oil Holding Company ("CAOHC") from China Aviation Oil Supply Corporation ("CAOSC"). The amount due to CAOSC has been reclassified accordingly in the balance sheet as at 30 June 2003.

1(b)(ii) **Aggregate amount of group's borrowings and debt securities**

Amount repayable in one year or less, or on demand

As at 30/06/2003		As at 31/12/2002	
Secured	Unsecured	Secured	Unsecured
0	15,918 K	0	41,675 K

Amount repayable after one year

As at 30/06/2003		As at 31/12/2002	
Secured	Unsecured	Secured	Unsecured
0	0	0	0

Details of any collateral

NA

- 1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

GROUP	2Q 2003	2Q 2002	1H 2003	1H 2002
	S\$ '000	S\$ '000	S\$ '000	S\$ '000
Cash flow from operating activities				
Profit before taxation	13,306	8,540	35,006	19,336
Adjustments for:				
Depreciation of fixed assets	178	146	357	288
Amortization of Goodwill	620	0	1,240	0
Gain on sale of fixed assets	0	(490)	0	(490)
Interest expenses	320	209	503	301
Interest income	(273)	(615)	(427)	(1,009)
Dividend Income- CLH	(2,296)	0	(6,977)	0
Share of profit of associated company	(8,685)	0	(18,053)	0
Operating profit before reinvestment in working capital	3,170	7,790	11,649	18,426
(Increase)/decrease in Inventory	(7,677)	0	2,871	0
(Increase)/decrease in trade debtors	54,126	(8,704)	25,745	61,054
(Increase)/decrease in other debtors, deposits and prepayments	8,057	(3,080)	(3,285)	(2,682)
(Increase)/decrease in amount due from related company	0	968	(8)	0
Increase/(decrease) in amount due to Holding Company	(79,055)	(247)	(79,055)	(330)
Increase/(decrease) in trade creditors	(41,325)	5,267	7,054	(12,403)
(Increase)/decrease in amount due from associate	78,246	0	78,246	0
Increase/(decrease) in other creditors and accruals	(19,135)	2,068	(9,664)	1,745
Increase/(decrease) in accrued staff costs	1,511	236	1,893	0
Increase/(decrease) in trust receipt payables	0	8,361	(25,757)	(27,657)
Cash generated from operations	(2,082)	12,659	9,689	38,153
Income tax paid	(2,348)	(2,545)	(3,077)	(2,545)
Interest received	273	615	427	1,009
Interest paid	(320)	(209)	(503)	(301)
Net cash from operating activities	(4,477)	10,520	6,536	36,316
Cash flow from investing activities				
Proceeds from sale of fixed assets	0	3,736	0	3,736
Purchase of fixed assets	(166)	(6,955)	(166)	(7,364)
Expenses incurred in investment in SPIA	65	0	(63)	0
Purchase of investment in CLH and club membership	(148)	0	(148)	0
Dividend Received-CLH	2,296	0	6,977	0
Net cash used in investing activities	2,047	(3,219)	6,600	(3,628)
Cash flow from financing activities				
IPO Expenses	0	(106)	0	(170)
Dividend paid on ordinary shares	(1,440)	0	(1,440)	0
Net cash generated from financing activities	(1,440)	(106)	(1,440)	(170)
Net increase in cash and cash equivalents	(3,870)	7,195	11,696	32,518
Cash and cash equivalents at beginning of period	68,473	165,293	52,907	139,970
Cash and cash equivalent at end of period	64,603	172,488	64,603	172,488

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and

distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group		Group		Company		Company	
	Apr to Jun 03 S\$'000	Apr to Jun 02 S\$'000	Jan to Jun 03 S\$'000	Jan to Jun 02 S\$'000	Apr to Jun 03 S\$'000	Apr to Jun 02 S\$'000	Jan to Jun 03 S\$'000	Jan to Jun 02 S\$'000
Issued Share Capital								
Balance at beginning of period	28,800	28,800	28,800	28,800	28,800	28,800	28,800	28,800
Bonus issue of ordinary shares before IPO	5,760	0	5,760	0	5,760	0	5,760	0
Balance at end of period	<u>34,560</u>	<u>28,800</u>	<u>34,560</u>	<u>28,800</u>	<u>34,560</u>	<u>28,800</u>	<u>34,560</u>	<u>28,800</u>
Share Premium								
Balance at beginning of period	69,737	69,863	69,737	69,927	69,737	69,863	69,737	69,927
Amount capitalised for issue of bonus shares	(5,760)	0	(5,760)	0	(5,760)	0	(5,760)	0
Expenses on issuance of ordinary shares	0	(106)	0	(170)	0	(106)	0	(170)
Balance at end of period	<u>63,977</u>	<u>69,757</u>	<u>63,977</u>	<u>69,757</u>	<u>63,977</u>	<u>69,757</u>	<u>63,977</u>	<u>69,757</u>
Accumulated Profits								
Balance at beginning of period	90,567	39,568	72,435	29,971	66,847	39,889	56,045	30,300
Profit for the period	11,260	7,935	29,392	17,532	4,499	7,760	15,301	17,349
Balance at end of year	<u>101,827</u>	<u>47,503</u>	<u>101,827</u>	<u>47,503</u>	<u>71,346</u>	<u>47,649</u>	<u>71,346</u>	<u>47,649</u>
Dividend Reserve								
Balance at beginning of period	5,760	18,000	5,760	18,000	5,760	18,000	5,760	18,000
Final dividends paid	(5,760)	0	(5,760)	0	(5,760)	0	(5,760)	0
Balance at end of period	<u>0</u>	<u>18,000</u>	<u>0</u>	<u>18,000</u>	<u>0</u>	<u>18,000</u>	<u>0</u>	<u>18,000</u>

1(d)(ii) **Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

	<u>Number of Shares</u>	<u>Amount (S\$'000)</u>
Ordinary Shares as at 1 Jan 2003	576,000,000	28,800
Bonus Shares - 1 for every 5	<u>115,199,999</u>	<u>5,760</u>
Balance as at 30 Jun 2003	<u>691,199,999</u>	<u>34,560</u>

During the financial period ended 30 June 2003, the Company issued 115,199,999 Bonus Shares on the basis of one (1) Bonus Shares for every five (5) existing Shares

held as at Book Closure Date, 23 June 2003. The Bonus Issue was effected by capitalising S\$5,760K from the share premium account of the Company and applied it in making payment in full for the Bonus Shares which were allotted and issued to Shareholders.

- 2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)**

The figures have not been audited or reviewed by the auditors.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

Not Applicable

- 4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

The Group has applied the same accounting policies and methods of computation in the financial statements for the current financial year compared with those of the audited statements as at 31 December 2002.

- 5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change**

Not Applicable

- 6. Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

	2Q 2003	2Q 2002
<u>Earnings per share</u>		

(c) Earnings per ordinary share for the period after deducting any provision for preference dividends:-

(i) Based on the weighted average number of ordinary shares in issue; and	1.9 cents	1.3 cents
(ii) On a fully diluted basis	1.9 cents	1.3 cents

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year**

	Group		Company	
	30/06/2003	31/12/2002	30/06/2003	31/12/2002
Net Asset Value				
per ordinary share based on issued share capital as at the end of the period reported on	29.0 cents	30.7 cents	24.6 cents	27.8 cents
Number of ordinary shares issued ('000)	691,200	576,000	691,200	576,000

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on**

The Group achieved net profit after tax of S\$11.3 million for the second quarter of 2003 compared to S\$7.9 million for the corresponding period of 2002, an increase of 41.9%.

Revenue increased 15.7% to S\$465.8 million from S\$402.6 million in second quarter 2002, a result of the Group increasing the number of professional traders employed.

The 41.9% increase in net profit is attributed to the Group's three-prong strategy –

investing in oil-related assets, expanding international oil trading and jet fuel procurement which was fully realised from July 2002 with the acquisition of equity stakes in Spanish oil giant Compania Logistica de Hidrocarburos ("CLH") and Shanghai Pudong International Airport Aviation Fuel Company ("Pudong").

The increase in Other Income of 15.6% is substantially due to the receipts of these dividends from CLH for FY 2002, equivalent to S\$2.3 million in the second quarter of 2003. Share of results of associate company Pudong amounted to S\$8.7 million. Thus, CAO's two strategic investments contributed 77% of the Group's pre-tax profits.

The outbreak of the SARS epidemic during the second quarter further underscored the effectiveness of the Group's three-pronged strategy in stabilising profits. The short-term negative effect of SARS on the Group's jet fuel procurement business and Pudong's operations as outlined in the Group's announcement on 7 May 2003 did not extensively affect the Group as anticipated. As the authorities in China were able to contain the virus from spreading further, demand of jet fuel imports have since rebounded in July 2003 in line with the increasing reinstatement of flights back to pre-SARS levels

Gross profit decreased to S\$6.5 million compared to S\$10.9 million, a decrease of 40.6%. This was due to the reduction of commission for jet fuel procurement beginning from the second half of 2002. Another contributing factor was that the margins for new products traded from the second half of 2002 are traditionally low. These factors, coupled with the fact that the Group has to trade margin to establish its presence in the international oil market, reduced the gross profit of the Group

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

No variance from previous statement

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

The effect of Sars was most acutely felt in the 2nd quarter of 2003. Even then, the negative effect was not as adverse as expected due to the Group's three-pronged strategy of strategic investment, international oil trading and jet fuel procurement.

It was also expected then that the effect of SARS would be short term as the health authorities of the affected countries implemented measures to bring the disease under control. In the beginning of the third quarter, with SARS clearly under control, there was an increase in the number of people traveling, with the trend expected to continue. Airlines are also gradually increasing the number of flights. This is clearly demonstrated by the third quarter jet fuel procurement volume from an original planned 145,000 metric tons to a revised volume of 293,400 metric tons, an increase of 102%.

International oil trading will also see an increase in scale in the 3rd quarter. Besides the effects on demand of China's rebound from SARS, increased Asian refinery runs going into the pre-winter production season will contribute to the broad-based advances in volumes.

The Group's associate Pudong, which owns and operates the refueling facilities at China's second largest airport Shanghai Pudong, has seen a recovery in demand – the number of flights has increased from 2,636 in May to 3,149 in June 2003. We expect the improvement in volumes to continue in the second half of the year.

Strategic investments, international oil trading and jet fuel procurement are all on track for growth in the current quarter. Further normalization of procurement volumes should be seen in the fourth quarter as well.

In July 2003, the company signed a syndicated loan agreement with 10 banks for a transferable term credit facility of US\$160 million. The proceeds of the loan would be used for working capital and to finance any investment opportunities that may arise. Whether the loan is ultimately drawn down and how much of it would be drawn down depends on the investment opportunities that the company has been considering, including possibilities in the US, China and ASEAN. The impact on earnings if the loan is utilized depends on the amount of draw down and the use of the loans.

A distribution of retained earnings accrued in years prior to 2002 was made by Pudong to CAO in July 2003, equivalent to RMB 39.6 million. The distribution will be used to partially offset the initial investment cost in Pudong, effectively reduces the goodwill paid for this investment and the subsequent annual amortization charge, as well as improving the company's cash flows.

Managing Director's remuneration adjusted

At Mr.Chen's initiative, the Remuneration Committee drafted a proposal adjusting the Managing Director's service agreement, which the Board has subsequently approved. Under the terms of the new plan (which when signed will be made effective 1 January 2003), base salary is \$480,000 per year, while bonus is S\$120,000. The new profit sharing scheme pays according to the following schedule:

- Nothing on the first S\$20 million in pretax profit [previous threshold S\$12 million]
- 7% of pretax profits over S\$20 million but less than S\$40 million [previously 7% of pretax profits over S\$12 million but less than S\$20 million]
- 8% of pretax profits over S\$40 million but less than S\$60 million
- 9% of pretax profits over S\$60 million but less than S\$80 million [previously 9% of pretax profits over S\$20 million but less than S\$35 million]
- 10% of pretax profits over S\$80 million [previously 10% of pretax profits over S\$35 million]

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on? None

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year? None

(c) Date payable

Not Applicable

(d) Books closure date

Not Applicable

12. If no dividend has been declared/recommended, a statement to that effect

No dividend has been declared/recommendeded

**PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)**

13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year

Not Applicable

14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments

Not Applicable

15. A breakdown of sales

Not Applicable

16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year

Total Annual Dividend (*Refer to Para 16 of Appendix 7.2 for the required details*)

	Latest Full Year (S\$'000)	Previous Full Year (S\$'000)
Ordinary	5,760	18,000
Preference	0	0
Total:	5,760	18,000

BY ORDER OF THE BOARD

Adrian Chang
Company Secretary
29/08/2003
Singapore