CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD
(Incorporated in the Republic of Singapore)

ANNOUNCEMENT

1. INTRODUCTION

The Board of Directors of China Aviation Oil (Singapore) Corporation Ltd ("**CAO**") announces that CAO has today entered into a conditional share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which CAO has agreed to purchase from Satya Capital Limited ("**SCL**") 88,000,000 ordinary shares of S$0.50 each (the "**Sale Shares**") in the capital of Singapore Petroleum Company Limited ("**SPC**"), representing approximately 20.60% of the issued share capital of SPC (the "**Proposed Acquisition**").

2. PRINCIPAL TERMS OF THE PROPOSED ACQUISITION

2.1 **Purchase Consideration**. The aggregate consideration for the purchase of the Sale Shares (the "**Purchase Consideration**") was arrived at on a willing buyer, willing seller basis, after taking into account, among other factors, the recent historical transacted prices of the SPC Shares (as defined below) and CAO Shares (as defined below) on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") prior to the date of this Announcement.

The Purchase Consideration is to be satisfied as follows:

(a) the payment of an aggregate amount of S$227,000,000 in cash (the "**Cash Amount**"); and

(b) the issue and allotment of 208,000,000 warrants carrying the rights to subscribe for 208,000,000 new CAO Shares (as defined below), at an exercise price of S$1.52 for each new CAO Share, for a period commencing on and including the date of issue of the warrants but before the fifth anniversary of such date of issue (the "**Warrants**").

Unless otherwise stated, all references in this Announcement to the "issued share capital of CAO" are based on the issued ordinary share capital of CAO of S$48,383,999.60 comprising 967,679,992 ordinary shares of S$0.05 each in the capital of CAO (the "**CAO Shares**") and the "issued share capital of SPC" are based on the issued ordinary share capital of SPC of S$213,635,199 comprising 427,270,398 ordinary shares of S$0.50 each in the capital of SPC (the "**SPC Shares**")[1].

2.2 **Warrants.** The exercise price of the Warrants represents a premium of 2.0% over the volume-weighted average share price of S$1.49 prior to the date of this Announcement.

[1] As disclosed in a search conducted at the Accounting and Corporate Regulatory Authority of Singapore on 17 August 2004.

Assuming that the Warrants are fully exercised, the number of new CAO Shares to be issued upon the exercise of the Warrants represents approximately 17.7% of the enlarged issued share capital of CAO.

2.3 **Conditions to the Proposed Acquisition**. Completion of the Proposed Acquisition is conditional upon the following:

(a) the approval of shareholders of CAO for (i) the Proposed Acquisition, (ii) the proposed allotment and issue of the Warrants to SCL pursuant to the Share Purchase Agreement, and (iii) the proposed increase in the authorised share capital from S$60,000,000 divided into 1,200,000,000 CAO Shares to S$130,000,000 divided into 2,600,000,000 CAO Shares, at the extraordinary general meeting of CAO ("**EGM**");

(b) the approval in-principle for the listing and quotation of the new CAO Shares to be issued by the Company pursuant to the exercise of the Warrants on the Official List of SGX-ST, from SGX-ST, and such approval not having been revoked or amended and, where such approval is subject to conditions, such conditions being reasonably acceptable to the Company and SCL and, to the extent that any conditions for the listing and quotation of such new CAO Shares on SGX-ST are required to be fulfilled on or before the date of completion of the Proposed Acquisition, they are so fulfilled;

(c) SCL executes an agreement(s) with any third part(ies) ("**Placees**") for the disposal of the Warrants on or before 1 September 2004 (or such later date as SCL and CAO may agree in accordance with the Share Purchase Agreement) ("**Reference Date**");and

(d) SCL delivers the written consent ("**Written Consent**") of ING Bank, N.V., Singapore branch ("**ING Bank**"): (i) to the Share Purchase Agreement and the transactions contemplated therein; (ii) to the discharge of the Sale Shares from the charge granted pursuant to certain facilities granted by ING Bank to SCL, such written consent to be in a form that is reasonably acceptable to SCL and CAO.

2.4 **Listing**. CAO will make an application for the approval in-principle of SGX-ST for the listing and quotation of the new CAO Shares to be issued by CAO pursuant to the exercise of the Warrants.

2.5 **Covenants**. Between the date of this Agreement and the Reference Date, CAO and SCL shall use their best efforts to arrange for the Warrants to be disposed to Placees, at such price and on such terms and conditions that are acceptable to SCL, with a view to realising cash proceeds for SCL upon completion of the Proposed Acquisition. SCL alone has the right to waive the condition precedent relating to the execution of the agreement with the Placees for the disposal of the Warrants on or before the Reference Date.

SCL further agrees that it will use all reasonable efforts to obtain the Written Consent as soon as practicable between the date of this Agreement and the Reference Date.

3. INFORMATION ON THE SPC GROUP [2]

3.1 **General.** SPC was incorporated in the Republic of Singapore on 16 May 1969 and was listed on the Main Board of SGX-ST on 25 October 1990.

3.2 **Shareholding.** As at the date of this Announcement, CAO does not hold any SPC Shares. Upon the completion of the Proposed Acquisition, CAO will hold approximately 20.60% of the issued share capital of SPC or 17.4% of the enlarged issued share capital of SPC assuming the conversion of US$184,400,000 1.75% Convertible Bonds due 2009 issued by SPC.

3.3 **Core Businesses.** SPC is a major regional oil and gas company with interests in oil and gas development and production, refining, terminalling and distribution, marketing and trading of the crude and refined petroleum products. SPC's activities are focused on the upstream, midstream and downstream businesses.

4. RATIONALE FOR THE PROPOSED ACQUISITION

4.1 **Background**. CAO is the only publicly overseas-listed entity of China Aviation Oil Holding Company ("**CAOHC**"), a large state-owned aviation transportation logistics group of the People's Republic of China ("**PRC**"). Since establishment in 1993, CAO has undergone two major transformations. The first transformation in 1997 witnessed CAO's transition from shipbroking to oil trading, with a focus on jet fuel procurement and currently dominating close to 100% share of the Chinese jet fuel import market. In an effort to realise the ambition, growth and expansion of CAO, CAO was listed on the Main Board of the SGX-ST in December 2001. Following the listing in 2001, CAO entered into the second phase of its transformation in developing a third pillar for growth through strategic investments in oil and gas related infrastructure and logistics projects. These transformations have given rise to CAO's current three-pronged business model, comprising oil-related strategic investments, international oil trading, and jet fuel procurement for imports to China.

In 2002, CAO completed two investments in acquiring a 33.0% stake in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd, and a 5% stake in Compania Logistica de Hidrocarburos, S.A., a leader in Spain's petroleum transportation and storage market. Subsequent to these investments, CAO has continued to look for investment opportunities to enhance value to its shareholders.

CAO believes that with the Proposed Acquisition, CAO will be well positioned to enter into its third phase of transformation to become a fully integrated oil and gas company. In particular, CAO believes that the Proposed Acquisition will enhance the opportunities to leverage its access to the Chinese aviation industry. Further the Proposed Acquisition will provide an additional income stream to CAO.

4.2 **Enhancing profitability.** SPC's principal investment is its 50.0% stake in Singapore Refining Company Private Limited ("**SRC**"), a refinery situated on Jurong Island in Singapore with a capacity of 285,000 barrels of oil per day.

CAO believes that, consistent with industry views, the current uptrend in gross refining

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[2] Any information relating to SPC or the SPC Group in this Announcement has been extracted from published or otherwise publicly available sources.

margins is only at the beginning of an upcycle which may last for at least 3 to 5 years. CAO is of the view that this upward trend will greatly benefit SPC and hence, CAO's investment in SPC.

4.3 **Future plans**. The Proposed Acquisition represents the first step in the third phase of transforming CAO into a fully integrated oil and gas company. The Directors are of the view that SPC is a very important and unique opportunity for the CAO Group to further enhance their foothold in the energy sector. CAO believes that with CAO's strong presence and relationships in the PRC, together with SPC's business and management expertise, there is great potential to realise synergies between the two companies.

5. FUNDING AND FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

5.1 **Funding**. The Cash Amount is proposed to be funded from CAO's internal resources and bank borrowings.

5.2 **Financial Effects**. A summary of the financial effects of the Proposed Acquisition are set out in the Appendix to this Announcement.

6. VALUATION

6.1 **Rule 1006.** In relation to the issue of the Warrants, CAO will be adopting the accounting treatment in accordance with the Singapore Financial Reporting Standards ("**FRS**"). Under the FRS, CAO is required to value the Warrants. For this purpose, CAO has appointed an independent expert who has determined that the fair value ("**Fair Value**") of the Warrants as of 17 August 2004, the last trading day prior to this Announcement, is approximately S$64.48 million. Based on the audited consolidated financial statements of CAO and its subsidiaries (the "**CAO Group**") for the financial year ended 31 December 2003 and the audited consolidated financial statements of SPC and its subsidiaries (the "**SPC Group**") for the financial year ended 31 December 2003, the relative figures for the Proposed Acquisition computed on the bases set out in Rule 1006 of the Listing Manual of SGX-ST ("**Listing Manual**") are set out below:

(a) ***Net Profits***

The profits before income tax, minority interests and extraordinary items (the "**net profits**") attributable to the Sale Shares of approximately S$14,563,000, compared with the CAO Group's net profits of approximately S$67,097,000, is approximately 21.70%.

(b) ***Consideration***

The aggregate value of the consideration for the purchase of the Sale Shares of S$291.48 million, which comprises the Cash Amount and the Fair Value of 208,000,000 Warrants, compared with CAO's market capitalisation based on the volume-weighted average of the transacted prices of S$1.49 per CAO Share on SGX-ST as of 17 August 2004 (the last trading day of the CAO Shares on SGX-ST prior to the date of this Announcement), is approximately 20.2%.

(c) ***Equity Securities***

The equity component of the consideration for the Proposed Acquisition is 208,000,000 Warrants. Assuming that the Warrants are fully exercised into new CAO Shares, such number of new CAO Shares compared with the number of equity securities of CAO in issue as at the date of this Announcement of 967,679,992 CAO Shares, is approximately 21.49%.

6.2 Based on the unaudited consolidated financial statements of the CAO Group for the six months ended 30 June 2004 and the unaudited consolidated financial statements of the SPC Group for the six months ended 30 June 2004, the net profits attributable to the Sale Shares of approximately S$16,176,000, compared with the CAO Group's net profits of approximately S$38,304,000 is approximately 42.23%.

6.3 **Rule 1013.** The Proposed Acquisition is a "major" transaction under Rule 1013 of the Listing Manual. Accordingly, the Proposed Acquisition is conditional upon the approval of the shareholders of CAO at the EGM to be convened for the Proposed Acquisition.

6.4 **Sale Shares**. The market value of the Sale Shares is approximately S$273.68 million based on the volume-weighted average price of the SPC Shares of S$3.11 on the last trading day prior to the date of this Announcement.

7. SUBSTANTIAL SHAREHOLDER'S UNDERTAKING

CAOHC has given an irrevocable undertaking to vote, or procure the voting of, all the CAO Shares in which it has an interest, in favour of the resolutions to be proposed at the forthcoming EGM.

As at the date of this Announcement, CAOHC has a direct interest in 725,760,000 CAO Shares, representing approximately 75.0% of the issued share capital of CAO.

The irrevocable undertaking of CAOHC will terminate on the earlier of:

(a) the close of the EGM; and

(b) 30 October 2004 (or such other date as CAO and SCL may agree in accordance with the Share Purchase Agreement).

8. DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTEREST

No Director or controlling shareholder of CAO has an interest, direct or indirect, in the Proposed Acquisition.

9. OTHERS

9.1 **Financial Adviser**. CAO has appointed ABN AMRO as its financial adviser in respect of the Proposed Acquisition.

9.2 **Directors' Service Contracts**. No directors are proposed to be appointed to CAO in connection with the Proposed Acquisition.

9.3 **Documents for Inspection.** A copy of the Share Purchase Agreement is available for inspection at the registered office of CAO during normal business hours for a period of 3 months from the date of this Announcement.

10. GENERAL

A circular containing further details of the Proposed Acquisition and convening the EGM for the purpose of seeking the approval of shareholders will be despatched to shareholders in due course.

BY ORDER OF THE BOARD

Adrian Chang
Company Secretary

Appendix

Financial Effects

1. Analysis

For illustrative purposes only, set out below is an analysis of the financial effects of the Proposed Acquisition on:

(1) the earnings per share of CAO;

(2) the net tangible asset value ("**NTA**") per share of CAO;

(3) the net gearing of the CAO Group; and

(4) the share capital of CAO.

2. Scenarios

The analysis considers the following scenarios:

(1) no exercise of the Warrants ("**Scenario 1**"); and

(2) full exercise of the Warrants ("**Scenario 2**").

3. Bases and Assumptions

3.1 The analysis has been prepared on the following bases and assumptions:

(1) based on (a) the audited consolidated financial statements of the CAO Group and SPC and its subsidiaries (the "**SPC Group**"), in each case for the financial year ended 31 December 2003 and (b) the unaudited interim results of the CAO Group and the SPC Group, in each case for the six months ended 30 June 2004;

(2) for the purposes of computing the effect on the NTA per share of CAO and the net gearing of the CAO Group (a) the Proposed Acquisition is assumed to have been completed on 31 December 2003 and 30 June 2004 respectively, and (b) based on the actual number of CAO Shares that are in issue as at 31 December 2003 and 30 June 2004 respectively;

(3) for the purposes of computing the effect on the earnings per share of CAO, (a) the Proposed Acquisition is assumed to have been completed as at 1 January 2003 and (b) the bonus issue of 276,479,993 new CAO Shares that was announced by CAO on 29 February 2004 had been effected as of 1 January 2003;

(4) goodwill on the acquisition of SPC is assumed not to be amortised following the proposed early adoption of FRS 103, which would otherwise have been effective for financial statements covering periods beginning on or after 1 January 2005; and

(5) the Warrants were valued on 17 August 2004 (the last trading day of the CAO Shares on SGX-ST prior to this Announcement);[3] and

(6) the Acquisition is funded by loans at an interest rate of 2.18% in relation to Scenario 1 and no interest expense will be incurred in relation to Scenario 2.

[3] Under the FRS, the Warrants will be valued on the date of their issue.

3.2 In setting out the analysis below, no account has been taken of and no adjustments have been made in respect of, among other things, the differences in the accounting principles, policies and practices used in the preparation of the financial statements of the CAO Group and the SPC Group. Further, the analyses below has been prepared solely on the basis of publicly available information relating to the SPC Group. Had account been taken of, and adjustments made to reflect, such differences and other information relating to the SPC Group not otherwise publicly available, there can be no assurance that there would be no material differences to the financial effects analyses presented below.

4. Earnings per share of CAO

On the bases and assumptions set out above, the following table illustrates the effects of the Proposed Acquisition on the earnings per share of CAO:

	For the year ended 31 December 2003	**After the Proposed Acquisition**	
		Scenario 1	**Scenario 2**
Profit after tax (S$'000)	54,270	62,472	66,431
Issued shares ('000)	967,680	967,680	1,175,680
Earnings per share (cents)	5.61	6.46	5.65

	For the six months ended 30 June 2004	**After the Proposed Acquisition**	
		Scenario 1	**Scenario 2**
Profit after tax (S$'000)	32,932	44,990	46,969
Issued shares ('000)	967,680	967,680	1,175,680
Earnings per share (cents)	3.40	4.65	4.00

5. NTA per share of CAO

On the bases and assumptions set out above, the following table illustrates the effects of the Proposed Acquisition on the NTA per share of CAO:

	As at 31 December 2003	**After the Proposed Acquisition**	
		Scenario 1	**Scenario 2**
NTA (S$'000)	197,615	241,655	557,815
Issued shares ('000)	691,200	691,200	899,200
NTA per share (cents)	28.59	34.96	62.03

	As at 30 June 2004	After the Proposed Acquisition	
		Scenario 1	Scenario 2
NTA (S$'000)	209,148	253,188	569,348
Issued shares ('000)	967,680	967,680	1,175,680
NTA per share (cents)	21.61	26.16	48.43

6. **Gearing of the CAO Group**

On the bases and assumptions set out above, the following table illustrates the effect of the Proposed Acquisition on the net gearing of the CAO Group:

	As at 31 December 2003	After the Proposed Acquisition	
		Scenario 1	Scenario 2
Net gearing[1]	net cash	0.65	net cash

	As at 30 June 2004	After the Proposed Acquisition	
		Scenario 1	Scenario 2
Net gearing[1]	net cash	0.63	net cash

Note:

[1] "**Net gearing**" means the ratio of net borrowings to shareholders' funds. "**Net borrowings**" means the aggregate amount of liabilities arising from borrowings from banks and financial institutions, net of cash and fixed deposit balances. "**Shareholders' funds**" means the amount represented by the aggregate of the issued and paid-up ordinary share capital and reserves.

7. **Share Capital of CAO**

On the bases and assumptions set out above, the following table illustrates the effects of the Proposed Acquisition on the issued share capital of CAO:

	As at 31 December 2003	After the Proposed Acquisition	
		Scenario 1	Scenario 2
Number of CAO Shares in issue ('000)	691,200	691,200	899,200

	As at 30 June 2004	After the Proposed Acquisition	
		Scenario 1	Scenario 2
Number of CAO Shares in issue ('000)	967,680	967,680	1,175,680