

**APPENDIX TO NOTICE OF ANNUAL GENERAL MEETING**



**CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD**  
**中国航油(新加坡)股份有限公司**

Incorporated in the Republic of Singapore  
Company Registration No.: 199303293Z

**LETTER TO SHAREHOLDERS**

in relation to

- (1) **THE PROPOSED RENEWAL OF THE GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS;**
- (2) **THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE; AND**
- (3) **THE PROPOSED PIPELINE SERVICES CONTRACT.**

Independent Financial Adviser in relation to the Proposed Pipeline Services Contract



**CIMB BANK BERHAD (13491-P)**  
**Singapore Branch**  
(Incorporated In Malaysia)

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## DEFINITIONS

In this Letter, the following definitions shall apply throughout unless the context otherwise requires or unless otherwise stated:

### Entities

“Bluesky”	: China National Aviation Fuel South China Bluesky Corporation (华南蓝天航空油料有限公司), a subsidiary of CNAFCL
“BP”	: BP p.l.c., an indirect Controlling Shareholder of the Company
“BP Group”	: BP and its associates
“BPIA”	: BP Investments Asia Limited, an indirect subsidiary of BP and a Controlling Shareholder of the Company
“BPS”	: BP Singapore Pte. Limited, an indirect subsidiary of BP
“CAO” or “Company”	: China Aviation Oil (Singapore) Corporation Ltd
“CAO Group”	: The Company and its unlisted subsidiaries (i.e. which are not listed on the SGX-ST or an approved exchange), and the unlisted (as defined herein) associated companies of the Company over which the Company and its subsidiaries, or the Company and its subsidiaries and its interested persons, have Control
“CAO HK”	: China Aviation Oil (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company
“CIMB Bank”	: CIMB Bank Berhad, Singapore Branch
“CNAF”	: China National Aviation Fuel Group Corporation (中国航空油料集团公司), formerly known as China National Aviation Fuel Holding Company, the holding company of the Company
“CNAF Finance”	: China National Aviation Fuel Finance Co., Ltd (中国航油集团财务有限公司), a subsidiary of CNAF
“CNAF Group”	: CNAF and its associates
“CNAF HKR”	: CNAF Hong Kong Refuelling Limited (中國航油香港供油有限公司), an associate of CNAF
“CNAF Logistics”	: China National Aviation Fuel Logistics Co., Ltd (中国航油集团物流有限公司), a subsidiary of CNAF
“CNAFCL”	: China National Aviation Fuel Corporation Ltd (中国航空油料有限责任公司), a subsidiary of CNAF
“Group”	: The Company and its subsidiaries
“LandOil”	: China National Aviation Fuel Petroleum Co., Ltd (中国航油集团石油有限公司), a subsidiary of CNAF
“TSN-PEKCL”	: China National Aviation Fuel TSN-PEK Pipeline Transportation Corporation Ltd (中国航油集团津京管道运输有限责任公司), a 49%-owned associated company of the Company and an associate of CNAF

## **General**

- “2016 AGM”** : The annual general meeting of the Company held on 20 April 2016
- “2016 Annual Report”** : Annual Report of the Company for FY2016
- “AGM”** : The forthcoming 23<sup>rd</sup> annual general meeting of the Company, notice of which is set out on pages 179 to 184 of the 2016 Annual Report
- “Applicable Threshold”** : Has the meaning ascribed to it in paragraph 7.1 of **Annex II** to this Letter
- “Approved Entities”** : Has the meaning ascribed to it in paragraph 3.1.3 of **Annex II** to this Letter
- “Audit Committee”** : The audit committee of the Company, comprising Independent Directors Mr Ang Swee Tian, Dr Wang Kai Yuen and Mr Li Runsheng, and Non-Independent, Non-Executive Directors, Dr Zhao Shousen and Mr Felipe Arbelaez as at the date of this Letter
- “Average Barrel Price”** : The yearly average market price per barrel of KERO, which shall be the arithmetic average of the mean of the daily high and low quotations for KERO under the heading “FOB SINGAPORE — MARKET LOCATION” as published in Platts Asia-Pacific/Arab Gulf Marketscan, effective for the calendar month prior to the date of the relevant transaction
- “Beijing Airport”** : Beijing Capital International Airport
- “Bluesky Supply Agreement”** : The supply agreement entered into by the Company and Bluesky dated 1 April 2010 relating to the terms of the supply arrangements between the Company and Bluesky, which was previously renewed and extended to 1 April 2014, then further renewed and extended to 1 April 2016, and which has been extended by way of a new agreement dated 2 February 2016, which will expire on 1 April 2018
- “Board”** : The board of Directors of the Company
- “BPIA Directors”** : Mr Felipe Arbelaez and Ms Bella Young, both of whom are Non-Independent, Non-Executive Directors of the Company
- “CDP”** : The Central Depository (Pte) Limited
- “CFR”** : The acronym for the Incoterm “Cost and Freight” which indicates that the seller/exporter/manufacturer clears the goods for export and is responsible for the costs for transport of the goods to the port of destination. The buyer bears the risk of loss of the goods once the goods pass the ship’s rail at the port of shipment (and not destination)
- “CNAF Directors”** : Dr Xi Zhengping (Chairman and Non-Independent, Non-Executive Director of the Company), Mr Meng Fanqiu (Chief Executive Officer and Executive Director of the Company), Dr Zhao Shousen (Non-Independent, Non-Executive Director of the Company) and Dr Luo Qun (Non-Independent, Non-Executive Director of the Company)

<b>“CNAFCL Supply Agreement”</b>	: The supply agreement entered into by the Company and CNAFCL dated 23 March 2010 relating to the terms of the supply arrangements between the Company and CNAFCL, the term of which was previously renewed and extended to 6 August 2014, then renewed and extended to 6 August 2016, and which was extended to 6 August 2018 by mutual agreement between the parties thereto on substantially similar terms
<b>“Code”</b>	: The Singapore Code on Take-overs and Mergers
<b>“Companies Act”</b>	: The Companies Act (Chapter 50 of Singapore)
<b>“Control”</b>	: The capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of the Company
<b>“Controlling Shareholder”</b>	: In relation to a listed company, a person who: <ul style="list-style-type: none"> <li>(a) holds directly or indirectly fifteen per cent. (15%) or more of the total number of issued shares in the company excluding treasury shares. The SGX-ST may determine that a person who satisfies the above is not a Controlling Shareholder; or</li> <li>(b) in fact exercises Control over the company</li> </ul>
<b>“Deposit Banks”</b>	: Has the meaning ascribed to it in paragraph 3.1.3 of <b>Annex II</b> to this Letter
<b>“Derivative Financial Instruments”</b>	: Derivative financial instruments including but not limited to all futures and swaps products available in the energy and freight markets
<b>“Director”</b>	: A director of the Company as at the date of this Letter
<b>“Entrust Loan Arrangement Services”</b>	: Has the meaning ascribed to it in paragraph 3.1.3 of <b>Annex II</b> to this Letter
<b>“EPS”</b>	: Earnings per Share
<b>“Executive Director”</b>	: A Director who is an employee of and performs an executive function for the Company
<b>“Existing Pipeline Services Contract”</b>	: The pipeline services contract dated 7 May 2008 entered into between TSN-PEKCL and CNAFCL, and approved by Shareholders on 9 January 2009
<b>“FOB”</b>	: The acronym for the Incoterm “Free on Board”, which indicates that delivery is effected by the seller when the goods pass the ship’s rail at the named port of shipment. Accordingly, the seller clears the goods for export, and all costs and risks of loss of or damage to the goods from that port are borne by the buyer
<b>“FY”</b>	: Financial year ended or ending on 31 December
<b>“HKIA”</b>	: The Hong Kong International Airport at Chek Lap Kok
<b>“Incoterms”</b>	: The International Commercial Terms as developed and issued by the International Chamber of Commerce, and <b>“Incoterm”</b> means any one of such terms

<b>“Independent Directors”</b>	: The Directors who are considered independent for the purpose of making a recommendation to Shareholders on the renewal of the IPT Mandate, namely, Dr Wang Kai Yuen, Mr Li Runsheng and Mr Ang Swee Tian, and <b>“Independent Director”</b> means any one of them
<b>“Independent Directors (Pipeline Services Contract)”</b>	: The Directors who are considered independent for the purpose of making a recommendation to Shareholders on the Pipeline Services Contract, namely, Dr Wang Kai Yuen, Mr Li Runsheng, Mr Ang Swee Tian, Mr Felipe Arbelaez and Ms Bella Young
<b>“Interested Person Transactions”</b>	: Transactions proposed to be entered into between the CAO Group and the Interested Persons
<b>“Interested Persons”</b>	: For the purposes of the IPT Mandate, the CNAF Group and the BP Group, and <b>“Interested Person”</b> means any one of them
<b>“Into-Plane Fuelling Services Framework Agreement”</b>	: Has the meaning ascribed to it in paragraph 3.1.2 of <b>Annex II</b> to this Letter
<b>“Investee Companies”</b>	: Interested Persons in which the CAO Group has an equity investment
<b>“IPT Mandate”</b>	: (a) For the purposes of this Letter, excluding <b>Annexes II</b> and <b>III</b> to this Letter, the Shareholders’ general mandate pursuant to Chapter 9 of the Listing Manual permitting the Company, its subsidiaries and associated companies which are considered to be <b>“entities at risk”</b> under Chapter 9 of the Listing Manual or any of them, to enter into Interested Person Transactions with the Interested Persons, which was last renewed at the 2016 AGM; and  (b) for the purposes of <b>Annexes II</b> and <b>III</b> to this Letter, the Shareholders’ general mandate pursuant to Chapter 9 of the Listing Manual permitting the Company, its subsidiaries and associated companies which are considered to be <b>“entities at risk”</b> under Chapter 9 of the Listing Manual or any of them, to enter into Interested Person Transactions with the Interested Persons, proposed to be renewed at the AGM
<b>“KERO”</b>	: The abbreviation of “kerosene” as published in Platts Asia-Pacific/ Arab Gulf Marketscan under “FOB SINGAPORE — MARKET LOCATION”
<b>“Latest Practicable Date”</b>	: The latest practicable date prior to the printing of this Letter, being 3 March 2017
<b>“Letter”</b>	: This letter to Shareholders dated 31 March 2017
<b>“Listing Manual”</b>	: The Listing Manual of the SGX-ST
<b>“Listing Rules”</b>	: The listing rules of the SGX-ST set out in the Listing Manual
<b>“Market Day”</b>	: A day on which the SGX-ST is open for trading in securities
<b>“Maximum Price”</b>	: Has the meaning ascribed to it in paragraph 3.3.4 of this Letter
<b>“MOPS”</b>	: Has the meaning ascribed to it in paragraph 3.1.1 of <b>Annex II</b> to this Letter

<b>“Non-Executive Director”</b>	: A Director (including an Independent Director) of the Company, as the case may be, who is not an Executive Director
<b>“NTA”</b>	: Net tangible assets
<b>“Off-Market Purchases”</b>	: Has the meaning ascribed to it in paragraph 3.3.3 of this Letter
<b>“On-Market Purchases”</b>	: Has the meaning ascribed to it in paragraph 3.3.3 of this Letter
<b>“OTC”</b>	: Has the meaning ascribed to it in paragraph 3.2.2 of <b>Annex II</b> to this Letter
<b>“Petroleum Products”</b>	: Petroleum products including but not limited to aviation fuel, gas oil, fuel oil, crude oil and other petrochemicals
<b>“Pipeline”</b>	: TSN-PEKCL’s pipeline connecting Tianjin Nanjiang Port, Tianjin Airport and Beijing Airport
<b>“Pipeline Services Contract”</b>	: The jet fuel transportation services framework agreement proposed to be entered into between TSN-PEKCL and CNAFCL relating to provision of pipeline transportation services by TSN-PEKCL to CNAFCL as described in paragraph 4.2 of this Letter
<b>“PRC”</b>	: The People’s Republic of China
<b>“Relevant Period”</b>	: The period commencing from the date of the AGM being the date on which the Share Purchase Mandate is passed, if approved by the Shareholders, and expiring on the date the next annual general meeting is held or is required by law to be held, whichever is the earlier, after the date the resolution relating to the Share Purchase Mandate is passed
<b>“Risk Management Committee”</b>	: The risk management committee of the Company, comprising the Non-Executive Directors, namely Mr Felipe Arbelaez (Non-Independent BPIA Director), Dr Zhao Shousen (Non-Independent CNAF Director) and Mr Ang Swee Tian (Independent Director) as at the date of this Letter, set up for the purposes of assisting the Board in fulfilling its oversight and approval responsibilities relating to its risk management framework and policies, as well as market, credit, operational, compliance and all other risk concerns
<b>“ROE”</b>	: Return on equity
<b>“Securities Account”</b>	: A securities account maintained by a depositor with CDP but does not include a securities sub-account maintained with a depository agent
<b>“Senior Executives”</b>	: The senior executives of the CAO Group who, for the purposes of undertaking the review procedures described in paragraph 6 of <b>Annex II</b> to this Letter (Review Procedures for Interested Person Transactions), are the chief executive officer, chief financial officer, deputy chief financial officer, chief operating officer, head of finance, deputy head of finance, head of trading, deputy head of trading, head of risk management, deputy head of risk management, head of operations, deputy head of operations, any head of department, function or business unit, assistant to the chief executive officer, or any position of equivalent rank or seniority as the foregoing, of any of the members of the CAO Group, and/or such other senior management personnel tasked to undertake the functions of the foregoing senior executives’ positions from time to time

<b>“Services”</b>	: Services that the member(s) of the BP Group may provide to the CAO Group from time to time, whereby the member(s) of the BP Group share(s) the benefit of its contacts, expertise or knowledge with the CAO Group or where efficiencies and economies of scale can be achieved by the member(s) of the BP Group and the CAO Group through the provision of services by the former to the latter, including, without limitation, services relating to risk management, information-sharing, marketing, training, secondment of staff and other corporate functions
<b>“SGX-ST”</b>	: Singapore Exchange Securities Trading Limited
<b>“Share Purchase Mandate”</b>	: Shareholders’ mandate to authorise the Directors to make purchases of Shares in accordance with the terms set out in this Letter as well as the rules and regulations set forth in the Companies Act and the Listing Manual
<b>“Shareholders”</b>	: The registered holders of Shares, except that where the registered holder is CDP, the term <b>“Shareholders”</b> shall, in relation to those Shares, mean the depositors whose Securities Accounts are credited with Shares
<b>“Shares”</b>	: Ordinary shares in the capital of the Company
<b>“Substantial Shareholder”</b>	: A substantial shareholder of the Company as defined under Section 2(6) of the Securities and Futures Act (Chapter 289 of Singapore)
<b>“Supply Agreements”</b>	: Collectively, the CNAFCL Supply Agreement and Bluesky Supply Agreement
<b>“Term Charter Party Agreement”</b>	: The term charter party agreement entered into by the Company and CNAF Logistics dated 10 February 2014 relating to the provision of freight services by CNAF Logistics in respect of the transportation of Petroleum Products. The Term Charter Party Agreement, which was due to expire on 30 April 2015, was extended on the same terms (save for the delivery schedule, duration and pricing) by way of a new agreement dated 10 February 2015 and will expire on 30 April 2017. It has been further extended for 2 years on the same terms
<b>“Tianjin Airport”</b>	: Tianjin Binhai International Airport
<b>“Tianjin Nanjiang Port”</b>	: Tianjin Nanjiang Terminal, Tanggu Station
<b>“Transportation Capacity”</b>	: The entire annual capacity of the Pipeline of approximately 3.3 million tonnes per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of each 5-year term of the Pipeline Services Contract
<b>“Treasury Services”</b>	: Transactions relating to: <ul style="list-style-type: none"> <li>(a) interest-bearing placement of funds by the CAO Group with CNAF Finance;</li> <li>(b) the borrowing of funds by the CAO Group from CNAF Finance;</li> <li>(c) the provision of loans by the CAO Group to Approved Entities;</li> <li>(d) the grant of guarantees by the CAO Group in favour of third parties for the purposes of the Investee Companies; and</li> </ul>



- (e) the provision of Entrust Loan Arrangement Services by CNAF Finance to the CAO Group required for the purpose of the provision of loans by the CAO Group to Approved Entities based in the PRC

“%” or “per cent.”	: Per centum or percentage
“RMB”	: Renminbi
“S\$”	: Singapore dollars, the lawful currency of the Republic of Singapore
“US\$” and “US cents”	: U.S. dollars and cents, respectively, the lawful currency of the United States of America

The terms “**depositor**” and “**depository agent**” shall have the meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act (Chapter 289 of Singapore) in force as at the Latest Practicable Date.

The terms “**associate**”, “**associated company**”, “**entity at risk**”, “**interested person**”, “**interested person transaction**”, “**chief executive officer**” and “**approved exchange**” shall have the meanings ascribed to them respectively in the Listing Manual.

The term “**subsidiary**” shall have the meaning ascribed to it in Section 5 of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing any one gender shall, where applicable, include the other genders. References to persons shall, where applicable, include corporations.

Any reference to a time of day in this Letter shall be a reference to Singapore time unless otherwise stated.

Any reference in this Letter to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any term defined under the Companies Act or the Listing Manual and used in this Letter shall, where applicable, have the meaning ascribed to it under the Companies Act or the Listing Manual, as the case may be, unless otherwise provided. Save as otherwise stated, summaries of the provisions of any laws and regulations (including the Listing Manual) contained in this Letter are of such laws and regulations (including the Listing Manual) in force as at the Latest Practicable Date.

Any discrepancies in the tables in this Letter between the listed amounts and the totals thereof are due to rounding.

Unless otherwise stated, the following closing exchange rates as at the Latest Practicable Date have been used in this Letter:

S\$1: US\$0.707  
RMB1: US\$0.145

The exchange rates as set out above are used for illustration purposes only and should not be construed as a representation that the relevant amounts have been or could be converted at the rates above or at any other rates.

# CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

Incorporated in the Republic of Singapore  
Company Registration No.: 199303293Z

## Board of Directors:

Xi Zhengping	(Chairman – Non-Executive, Non-Independent)
Wang Kai Yuen	(Deputy Chairman/Lead Independent Director – Non-Executive, Independent)
Meng Fanqiu	(Chief Executive Officer/Executive Director – Executive, Non-Independent)
Ang Swee Tian	(Director – Non-Executive, Independent)
Felipe Arbelaez	(Director – Non-Executive, Non-Independent)
Li Runsheng	(Director – Non-Executive, Independent)
Luo Qun	(Director – Non-Executive, Non-Independent)
Bella Young	(Director – Non-Executive, Non-Independent)
Zhao Shousen	(Director – Non-Executive, Non-Independent)

## Registered Office:

8 Temasek Boulevard  
#31-02  
Suntec Tower Three  
Singapore 038988

31 March 2017

To: The Shareholders of China Aviation Oil (Singapore) Corporation Ltd

Dear Sir/Madam,

## LETTER TO SHAREHOLDERS

- (1) **THE PROPOSED RENEWAL OF THE GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS;**
- (2) **THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE; AND**
- (3) **THE PROPOSED PIPELINE SERVICES CONTRACT.**

### 1. INTRODUCTION

#### 1.1 AGM

We refer to the notice of annual general meeting of the Company (“**AGM**”) dated 31 March 2017 convening the AGM to be held on 18 April 2017, and in particular:

- (a) the ordinary resolution number 10 under the heading “Special Business”, in relation to the proposed renewal of the IPT Mandate;
- (b) the ordinary resolution number 11 under the heading “Special Business”, in relation to the proposed renewal of the Share Purchase Mandate; and
- (c) the ordinary resolution number 12 under the heading “Special Business”, in relation to the proposed Pipeline Services Contract,

as further explained in paragraphs 2, 3 and 4 respectively below.

#### 1.2 Letter

The purpose of this Letter is to provide Shareholders with the relevant information relating to, and to seek Shareholders’ approval at the AGM for, the proposals referred to in paragraph 1.1 above.

**If you are in any doubt as to the contents herein or as to the course of action that you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.**

If you have sold or transferred all your ordinary shares in the capital of the Company, you should immediately forward this Letter to the purchaser or the transferee or to the stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The SGX-ST assumes no responsibility for the accuracy of any of the statements made, reports contained or opinions expressed in this Letter.

## **2. THE PROPOSED RENEWAL OF THE IPT MANDATE**

### **2.1 The Proposed Renewal of the IPT Mandate**

Under Chapter 9 of the Listing Manual, a general mandate for transactions with interested persons is subject to annual renewal. The IPT Mandate was last renewed at the 2016 AGM and will continue to be in force until the conclusion of the AGM. Accordingly, it is proposed that the IPT Mandate be renewed at the AGM, to take effect until the conclusion of the next annual general meeting of the Company or the date on which the next annual general meeting of the Company is required to be held, whichever is the earlier.

General information relating to Chapter 9 of the Listing Manual is set out in **Annex I** to this Letter.

The proposed renewal of the IPT Mandate will authorise the Company, its subsidiaries and associated companies that are considered to be “entities at risk” within the meaning of Chapter 9 of the Listing Manual, to enter, in the ordinary course of business, into any of the mandated transactions with specified classes of the Company’s interested persons, provided that such transactions are made on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders, and are entered into in accordance with the review procedures for such transactions. As BPIA and CNAF are Controlling Shareholders, members of the BP Group and members of the CNAF Group constitute interested persons of the Company. Information on the shareholdings of BPIA and CNAF in the Company can be found in paragraph 7.2 of this Letter.

### **2.2 Statement of the Audit Committee**

Having considered, *inter alia*, the terms, the rationale and benefits of the IPT Mandate, as proposed to be renewed and set out in **Annex II** to this Letter, the Audit Committee is satisfied that the review procedures proposed by the Company, as set out in paragraph 6 of **Annex II** to this Letter, for determining the transaction prices and terms of the Interested Person Transactions:

- (a) have not changed since Shareholders’ approval for the IPT Mandate was last obtained at the 2016 AGM; and
- (b) if adhered to, are sufficient to ensure that the Interested Person Transactions carried out thereunder will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

The Non-Independent, Non-Executive Directors of the Audit Committee, Mr Felipe Arbelaez and Dr Zhao Shousen, being a BPIA Director and a CNAF Director respectively, have abstained from the Audit Committee’s review and determination in relation to the above.

### **2.3 Validity Period of the IPT Mandate**

If approved by Shareholders at the AGM, the IPT Mandate will take effect from the date of the passing of the resolution for the renewal of the IPT Mandate, to be proposed at the AGM, and shall apply in respect of Interested Person Transactions entered or to be entered into from the date of the AGM until the conclusion of the next annual general meeting of the Company or the date on which the next annual general meeting of the Company is required to be held, whichever is the earlier, unless revoked or varied by the Company in a general meeting.

## 2.4 Disclosure

Pursuant to Chapter 9 of the Listing Manual, the Company will disclose in its annual report the aggregate value of the Interested Person Transactions entered into under the IPT Mandate, as renewed, during the financial year under review, and in the annual reports of subsequent financial years during which the IPT Mandate, as renewed, is in force. In addition, the Company will announce the aggregate value of the Interested Person Transactions entered into pursuant to the IPT Mandate, as renewed, for the financial periods which it is required to report pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report.<sup>1</sup> These disclosures will be in the form set out in Rule 907 of the Listing Manual.

## 3. THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

### 3.1 Background

It is a requirement under the Companies Act that a company which wishes to purchase or otherwise acquire its own shares has to obtain the approval of its shareholders to do so at a general meeting of its shareholders. In this regard, the Share Purchase Mandate was approved by Shareholders at the extraordinary general meeting of the Company held on 18 September 2009, and last renewed at the 2016 AGM, to authorise the Directors to make purchases of Shares on the terms of the Share Purchase Mandate. Such Share Purchase Mandate will, unless renewed again, expire on the date of the AGM.

The Company proposes to renew the mandate for the Company to make on-market and off-market purchases of Shares from time to time of up to ten per cent. (10%) of the total number of issued Shares excluding treasury shares as at the date of the AGM in accordance with the terms set out below.

### 3.2 Rationale for the Share Purchase Mandate

The rationale for the Company to undertake the purchase or acquisition of its Shares is as follows:

- (a) in managing its business, the Group always strives to increase Shareholder value by improving, *inter alia*, the ROE of the Group and a Share purchase is one way by which ROE may be enhanced;
- (b) the Share Purchase Mandate will give the Company an easy mechanism to facilitate the return of surplus cash in excess of its requirements taking into account its growth and expansion plans, in an expedient and cost-efficient manner;
- (c) the Share Purchase Mandate will provide the Company the flexibility to adjust the Company's share capital structure and may, subject to market conditions and funding arrangements at the time, lead to an enhancement of the EPS and/or NTA per Share; and
- (d) the use of treasury shares for the purposes of the Company's share schemes for employees and others (if any) in lieu of issuing new Shares would mitigate the dilution impact (if any) on existing Shareholders which may arise from the operation of such schemes.

While the Share Purchase Mandate would authorise a purchase or acquisition of Shares up to the said ten per cent. (10%) limit during the period referred to in paragraph 3.3.2 below, Shareholders should note that purchases or acquisitions of Shares pursuant to the Share Purchase Mandate may not be carried out to the full ten per cent. (10%) limit as authorised and the purchases or acquisitions of Shares pursuant to the Share Purchase Mandate will be made only as and when the Directors consider it to be in the best interests of the Company and/or Shareholders and in circumstances which they believe will not result in any material adverse effect on the financial position of the Company or the Group, or result in the Company being delisted from the SGX-ST.

<sup>1</sup> In the case of Treasury Services involving interest-bearing placement of funds by the CAO Group with CNAF Finance, the Company will disclose the highest amount of funds of the CAO Group on placement with CNAF Finance (including both principal and any interest which has been compounded) in aggregate at any one time during the relevant financial period covered by the announcement or annual report, as well as separate disclosure of the aggregate interest earned during the said financial period.

The Directors will use their best efforts to ensure that after a purchase or acquisition of Shares pursuant to the Share Purchase Mandate, the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity or adversely affect the orderly trading and listing status of the Shares on the SGX-ST.

### **3.3 Details of the Share Purchase Mandate**

The authority and limitations placed on purchases of Shares by the Company under the Share Purchase Mandate, if renewed at the AGM, are the same as previously approved by Shareholders at the 2016 AGM, and are summarised below:

#### **3.3.1 Maximum Number of Shares**

Only Shares which are issued and fully paid-up may be purchased by the Company. Rule 882 of the Listing Manual states that the total number of Shares that may be purchased is limited to that number of Shares representing not more than ten per cent. (10%) of the total number of issued Shares (excluding treasury shares) as at the date of the AGM. If the Company has, at any time during the Relevant Period, reduced its share capital by a special resolution under Section 78C of the Companies Act, or the court has, at any time during the Relevant Period, made an order under Section 78I confirming the reduction of share capital of the Company, the total number of Shares shall be taken to be the total number of Shares as altered by the special resolution of the Company or the order of the court, as the case may be. Any Shares which are held as treasury shares will be disregarded for purposes of computing the ten per cent. (10%) limit.

Purely for illustrative purposes, on the basis of 860,183,628 Shares in issue as at the Latest Practicable Date (excluding treasury shares) and assuming that no further Shares are issued or repurchased and held as treasury shares on or prior to the date of the AGM, not more than 86,018,362 Shares (representing ten per cent. (10%) of the total number of issued Shares excluding treasury shares as at that date) may be purchased or acquired by the Company pursuant to the Share Purchase Mandate.

#### **3.3.2 Duration of Authority**

The authority conferred on the Directors pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the AGM and expiring on:

- (a) the date on which the next annual general meeting is held or required by law to be held;
- (b) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied by the Shareholders in a general meeting; or
- (c) the date on which purchases or acquisitions of Shares pursuant to the Share Purchase Mandate are carried out to the full extent mandated,

whichever is the earliest.

The Share Purchase Mandate may be renewed at each annual general meeting or other general meeting of the Company. When seeking the approval of Shareholders for the renewal of the Share Purchase Mandate, the Company is required to disclose details pertaining to purchases or acquisitions of Shares pursuant to the Share Purchase Mandate made during the previous twelve (12) months, including the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for such purchases of Shares, where relevant, and the total consideration paid for such purchases.

### 3.3.3 Manner of Purchase

Purchases of Shares may be made on the SGX-ST (“**On-Market Purchases**”) and/or otherwise than on the SGX-ST, in accordance with an equal access scheme (“**Off-Market Purchases**”).

On-Market Purchases refer to purchases of Shares by the Company transacted through the SGX-ST’s trading system through one or more duly licensed stockbrokers appointed by the Company for the purpose.

Off-Market Purchases refer to purchases of Shares by the Company made under an equal access scheme or schemes for the purchase of Shares from Shareholders. The Directors may impose such terms and conditions, which are consistent with the Share Purchase Mandate, the Listing Rules and the Companies Act, as they consider fit in the interests of the Company in connection with, or in relation to, an equal access scheme or schemes. Under the Companies Act, an Off-Market Purchase must satisfy all the following conditions:

- (a) offers for the purchase or acquisition of issued Shares shall be made to every person who holds issued Shares to purchase or acquire the same percentage of their issued Shares;
- (b) all of those persons shall be given a reasonable opportunity to accept the offers made to them; and
- (c) the terms of all the offers shall be the same, except that there shall be disregarded:
  - (i) differences in consideration attributable to the fact that offers may relate to Shares with different accrued dividend entitlements;
  - (ii) (if applicable) differences in consideration attributable to the fact that offers relate to Shares with different amounts remaining unpaid; and
  - (iii) differences in the offers introduced solely to ensure that each Shareholder is left with a whole number of Shares.

In addition, pursuant to the Listing Rules, in making an Off-Market Purchase in accordance with an equal access scheme, the Company must issue an offer document to all Shareholders which must contain at least the following information:

- (A) the terms and conditions of the offer;
- (B) the period and procedures for acceptances;
- (C) the reasons for the proposed purchase or acquisition of Shares;
- (D) the consequences, if any, of purchases or acquisitions of Shares by the Company that will arise under the Code or other applicable take-over rules;
- (E) whether the purchases or acquisitions of Shares, if made, could affect the listing of the Shares on the SGX-ST;
- (F) details of any purchases or acquisitions of Shares made by the Company in the previous twelve (12) months (whether On-Market Purchases or Off-Market Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for such purchases of Shares, where relevant, and the total consideration paid for such purchases; and
- (G) whether the Shares purchased or acquired by the Company will be cancelled or kept as treasury shares.

### 3.3.4 Maximum Purchase Price

The purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) to be paid for the Shares will be determined by the Directors or a committee of Directors that may be constituted for the purposes of effecting purchases or acquisitions of Shares by the Company under the Share Purchase Mandate. However, the purchase price to be paid for the Shares pursuant to the purchases or acquisitions of the Shares must not exceed:

- (a) in the case of an On-Market Purchase, five per cent. (5%) above the average of the closing market prices of the Shares over the last five (5) Market Days, on which transactions in the Shares were recorded, before the day on which the On-Market Purchase was made by the Company, which is deemed to be adjusted in accordance with the Listing Rules for any corporate action that occurs after the relevant period of five (5) Market Days; and
- (b) in the case of an Off-Market Purchase pursuant to an equal access scheme, ten per cent. (10%) above the average of the closing market prices of the Shares over the last five (5) Market Days on which transactions in the Shares were recorded, before the day on which the Company makes an announcement of an offer under the Off-Market Purchase scheme,

in either case, excluding related expenses of the purchase or acquisition (the “**Maximum Price**”).

For the purposes of the above:

“**day on which the Company makes an announcement of an offer**” means the day on which the Company announces its intention to make an offer for the purchase or acquisition of Shares from the Shareholders, stating therein the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

### 3.3.5 Status of Purchased Shares

Any Share which is purchased or acquired by the Company is treated as cancelled immediately on purchase or acquisition (and all rights and privileges attached to that Share will expire on cancellation) unless such Share is held by the Company as a treasury share. All cancelled Shares will be automatically delisted by the SGX-ST, and (where applicable) all certificates in respect thereof will be cancelled and destroyed by the Company as soon as reasonably practicable following settlement of any such purchase. Accordingly, the total number of issued Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as treasury shares. Prior Board approval will be sought if any Share to be purchased pursuant to the Share Purchase Mandate will be held in treasury. It is presently intended by the Company that Shares which are purchased or acquired by the Company will be held as treasury shares, up to the maximum number of treasury shares permitted by law to be held by the Company.

### 3.3.6 Treasury Shares

Under the Companies Act, Shares purchased or acquired by the Company may be held or dealt with as treasury shares. Some of the key provisions on treasury shares under the Companies Act are as follows:

- (a) **Maximum Holdings** — The number of Shares held as treasury shares cannot at any time exceed ten per cent. (10%) of the total number of issued Shares;
- (b) **Voting and Other Rights** — The Company shall be registered as a member in respect of the treasury shares but shall not have the right to attend or vote at meetings and/or to receive any dividends in respect of the treasury shares. However, the allotment of shares as fully paid bonus shares in respect of treasury shares is allowed. Also, a subdivision or consolidation of any treasury share into treasury shares of a greater or smaller amount is allowed so long as the total value of the treasury shares after the subdivision or consolidation is the same as before, as the case may be; and

- (c) Disposal and Cancellation — The Company may dispose of treasury shares at any time in the following ways:
  - (i) sell the treasury shares for cash;
  - (ii) transfer the treasury shares for the purposes of or pursuant to any share scheme, whether for employees, directors or other persons;
  - (iii) transfer the treasury shares as consideration for the acquisition of shares in or assets of another company or assets of a person;
  - (iv) cancel the treasury shares; or
  - (v) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister for Finance.

### 3.3.7 Source of Funds

The Company may only apply funds for the purchase or acquisition of Shares in accordance with the Constitution of the Company and the applicable laws and regulations in Singapore. The Company may not purchase or acquire its Shares for a consideration other than in cash or for settlement otherwise than in accordance with the trading rules of the SGX-ST.

The Company may purchase or acquire its own Shares out of capital, as well as from its distributable profits, provided that:

- (a) there is no ground on which the Company could be found to be unable to pay its debts;
- (b) if it is intended to commence winding up of the Company within the period of twelve (12) months immediately after the date of the payment, the Company will be able to pay its debts in full within the period of twelve (12) months after the date of commencement of the winding up or if it is not intended so to commence winding up, the Company will be able to pay its debts as they fall due during the period of twelve (12) months immediately after the date of the payment; and
- (c) the value of the Company's assets is not less than the value of its liabilities (including contingent liabilities) and will not, after the proposed purchase or acquisition, become less than the value of its liabilities (including contingent liabilities).

The Company intends to use its internal sources of funds and/or obtain or incur external borrowings to finance purchases or acquisitions of its Shares. The Directors do not propose to exercise the Share Purchase Mandate or rely on external borrowings to finance purchases or acquisitions of its Shares to such an extent that it would materially affect the financial position, working capital requirements or investment ability of the Group.

### 3.3.8 Financial Effects

The financial effects on the Group and the Company arising from purchases or acquisitions of Shares which may be made pursuant to the Share Purchase Mandate would depend on factors such as, *inter alia*, whether the Shares are purchased or acquired out of capital and/or profits, the aggregate number of Shares purchased or acquired, the purchase prices paid at the relevant time, and the amount (if any) borrowed by the Company to fund the purchases or acquisitions.

Where the purchase of Shares is made out of distributable profits, the amount available for the distribution of cash dividends by the Company will be correspondingly reduced. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced.



Where the Company chooses not to hold the purchased Shares in treasury, such Shares shall be cancelled. The Company shall:

- (a) reduce the amount of its share capital where the Shares were purchased or acquired out of the capital of the Company;
- (b) reduce the amount of its profits where the Shares were purchased or acquired out of the profits of the Company; or
- (c) reduce the amount of its share capital and profits proportionately where the Shares were purchased or acquired out of both the capital and the profits of the Company,

by the total amount of the purchase price paid by the Company for the Shares cancelled, including any expenses (including brokerage or commission) incurred in the purchase or acquisition of the Shares which are paid out of the Company's capital or profits. Where the purchased Shares are held in treasury, the total number of issued Shares will remain unchanged.

As at the Latest Practicable Date, the issued and paid-up share capital of the Company comprised 866,183,628 Shares (out of which 6,000,000 Shares were held in treasury). As the Company can only hold ten per cent. (10%) of its Shares being 86,618,362 Shares in treasury, the exercise in full of the Share Purchase Mandate would result in the purchase or acquisition of 80,618,362<sup>2</sup> Shares if all will be held in treasury, and 86,018,362 Shares if all will be cancelled. For the purposes of illustration and comparison only, the Company has assumed that pursuant to the Share Purchase Mandate, it will purchase or acquire the smaller number of Shares, i.e. 80,618,362<sup>2</sup> Shares, instead of the entire ten per cent. (10%) of the total number of issued Shares excluding treasury shares, i.e. 86,018,362 Shares.

It is not possible for the Company to realistically calculate or quantify the impact of purchases or acquisitions of Shares that may be made pursuant to the Share Purchase Mandate on the NTA and EPS as the resultant effect would depend on, *inter alia*, the aggregate number of Shares purchased or acquired, whether the purchase or acquisition is made out of capital or profits, the purchase price paid for such Shares and the amount borrowed (if any) by the Company to fund the purchase or acquisition of the Shares and whether the Shares purchased or acquired are cancelled or held as treasury shares.

For illustration purposes only and based on the assumptions set out below:

- (i) in the case of On-Market Purchases by the Company and assuming that the Company purchases or acquires 80,618,362 Shares, the maximum amount of funds required for the purchase (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) assuming a Maximum Price of S\$1.595 which is five per cent. (5%) above the average of the closing market prices of the Shares for the five (5) Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date, is approximately S\$128,586,287;
- (ii) in the case of Off-Market Purchases by the Company and assuming that the Company purchases or acquires 80,618,362 Shares, the maximum amount of funds required for the purchase (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) assuming a Maximum Price of S\$1.671 which is ten per cent. (10%) above the average closing market prices of the Shares for the last five (5) Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date, is approximately S\$134,713,283; and

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<sup>2</sup> Section 76l(1) of the Companies Act states that the aggregate number of shares held as treasury shares shall not at any time exceed ten per cent. (10%) of the total number of shares of the company at that time. As at the Latest Practicable Date, the Company has 6,000,000 Shares held in treasury. Hence, although the Share Purchase Mandate provides for up to 86,618,362 Shares to be purchased or acquired by the Company, the maximum number of Shares that the Company can purchase or acquire and hold in treasury is 80,618,362 Shares.

- (iii) the consideration for the purchase or acquisition of the Shares is funded equally by internal funds and borrowings after allowing for working capital, and interest payable on additional borrowings is at the rate of 2.72% per annum before adjusting for tax, and based on the audited financial statements of the Group for FY2016,

the effects of:

- (A) the purchase or acquisition of 80,618,362 Shares by the Company in an On-Market Purchase or Off-Market Purchase and held as treasury shares; and
- (B) the purchase or acquisition of 80,618,362 Shares by the Company in an On-Market Purchase or Off-Market Purchase and cancelled (where the 6,000,000 Shares held in treasury as at the Latest Practicable Date are also cancelled),

on the financial position of the Company and the Group are as follows:

**(1) On-Market Purchase or Off-Market Purchase of 80,618,362 Shares – held as treasury shares**

As at 31 December 2016	Company			Group		
	Before Share Purchase US\$'000	After On-Market Purchase US\$'000	After Off-Market Purchase US\$'000	Before Share Purchase US\$'000	After On-Market Purchase US\$'000	After Off-Market Purchase US\$'000
Share capital	215,573	215,573	215,573	215,573	215,573	215,573
Reserves	282,813	282,813	282,813	439,594	439,594	439,594
	498,386	498,386	498,386	655,167	655,167	655,167
Treasury shares	(5,482)	(96,392)	(100,724)	(5,482)	(96,392)	(100,724)
<b>Shareholders' funds</b>	<b>492,904</b>	<b>401,994</b>	<b>397,662</b>	<b>649,685</b>	<b>558,775</b>	<b>554,443</b>
<b>NTA<sup>(1)</sup></b>	<b>492,505</b>	<b>401,595</b>	<b>397,263</b>	<b>648,105</b>	<b>557,195</b>	<b>552,863</b>
Current assets	977,203	931,748	929,582	1,048,573	1,003,118	1,000,952
Current liabilities	653,933	699,388	701,554	688,425	733,880	736,046
Working capital	323,270	232,360	228,028	360,148	269,238	264,906
<b>Total borrowings</b>	<b>100,000</b>	<b>145,455</b>	<b>147,621</b>	<b>100,000</b>	<b>145,455</b>	<b>147,621</b>
Number of Shares ('000) <sup>(2)</sup>	866,184	866,184	866,184	866,184	866,184	866,184
Number of Shares (less treasury shares) ('000)	860,184	779,565	779,565	860,184	779,565	779,565
<b>Financial ratios</b>						
NTA per Share (US cents) <sup>(3)</sup>	57.26	51.52	50.96	75.34	71.48	70.92
Annualised ROE (%)	11.82	14.49	14.65	13.68	15.91	16.04
Basic EPS (US cents) <sup>(4)</sup>	6.77	7.47	7.47	10.34	11.40	11.40
Gearing ratio (times) <sup>(5)</sup>	0.20	0.36	0.37	0.15	0.26	0.27
Current ratio (times) <sup>(6)</sup>	1.49	1.33	1.33	1.52	1.37	1.36

**Notes:**

- (1) "NTA" here refers to net assets less goodwill on consolidation and intangible assets.
- (2) Includes a total of 86,618,362 Shares held in treasury, computed based on ten per cent. (10%) of the total number of Shares in issue as at the Latest Practicable Date.
- (3) NTA per Share is based on 779,565,266 Shares, the weighted average number of Shares for FY2016, which has excluded a total of 86,618,362 Shares held in treasury.
- (4) EPS is based on 779,565,266 Shares, which has excluded a total of 86,618,362 Shares held in treasury.
- (5) Gearing ratio equals total borrowings divided by Shareholders' funds.
- (6) Current ratio equals current assets divided by current liabilities.

As illustrated above, the purchase of Shares made out of the capital of the Company and held as treasury shares would have the effect of reducing the working capital and NTA of the Company and the Group. The consolidated NTA per Share of the Group as at 31 December 2016 would decrease from 75.34 US cents to 71.48 US cents in the case of an On-Market Purchase and from 75.34 US cents to 70.92 US cents in the case of an Off-Market Purchase. No adjustment was made to take into account the reduction in dividend paid out during the year from the purchase of Shares.

**(2) On-Market Purchase or Off-Market Purchase of 80,618,362 Shares — cancelled**

As at 31 December 2016	Company			Group		
	Before Share Purchase US\$'000	After On-Market Purchase US\$'000	After Off-Market Purchase US\$'000	Before Share Purchase US\$'000	After On-Market Purchase US\$'000	After Off-Market Purchase US\$'000
Share capital	215,573	119,181	114,849	215,573	119,181	114,849
Reserves	277,331	282,813	282,813	434,112	439,594	439,594
	492,904	401,994	397,662	649,685	558,775	554,443
Treasury shares	–	–	–	–	–	–
<b>Shareholders' funds</b>	<b>492,904</b>	<b>401,994</b>	<b>397,662</b>	<b>649,685</b>	<b>558,775</b>	<b>554,443</b>
<b>NTA<sup>(1)</sup></b>	<b>492,505</b>	<b>401,595</b>	<b>397,263</b>	<b>648,105</b>	<b>557,195</b>	<b>552,863</b>
Current assets	977,203	931,748	929,582	1,048,573	1,003,118	1,000,952
Current liabilities	653,933	699,388	701,554	688,425	733,880	736,046
Working capital	323,270	232,360	228,028	360,148	269,238	264,906
<b>Total borrowings</b>	<b>100,000</b>	<b>145,455</b>	<b>147,621</b>	<b>100,000</b>	<b>145,455</b>	<b>147,621</b>
Number of Shares (less Shares cancelled) ('000)	<b>860,184</b>	<b>779,565</b>	<b>779,565</b>	<b>860,184</b>	<b>779,565</b>	<b>779,565</b>
<b>Financial ratios</b>						
NTA per Share (US cents) <sup>(2)</sup>	57.26	51.52	50.96	75.34	71.48	70.92
Annualised ROE (%)	11.82	14.49	14.65	13.68	15.91	16.04
Basic EPS (US cents) <sup>(3)</sup>	6.77	7.47	7.47	10.34	11.40	11.40
Gearing ratio (times) <sup>(4)</sup>	0.20	0.36	0.37	0.15	0.26	0.27
Current ratio (times) <sup>(5)</sup>	1.49	1.33	1.33	1.52	1.37	1.36

**Notes:**

- (1) "NTA" here refers to net assets less goodwill on consolidation and intangible assets.
- (2) NTA per Share is based on 779,565,266 Shares, the weighted average number of Shares for FY2016, which figure excludes a total of 86,618,362 Shares cancelled.
- (3) EPS is based on 779,565,266 Shares, which figure excludes a total of 86,618,362 Shares cancelled.
- (4) Gearing ratio equals total borrowings divided by Shareholders' funds.
- (5) Current ratio equals current assets divided by current liabilities.

As illustrated above, the purchase of Shares made out of the capital of the Company and the cancellation of such purchased Shares would have the effect of reducing the working capital and NTA of the Company and the Group. The consolidated NTA per Share of the Group as at 31 December 2016 would decrease from 75.34 US cents to 71.48 US cents in the case of an On-Market Purchase and from 75.34 US cents to 70.92 US cents in the case of an Off-Market Purchase. No adjustment was made to take into account the reduction in dividend paid out during the year from the purchase of Shares.

**Shareholders should note that the financial effects set out above are purely for illustrative purposes only. Although the proposed Share Purchase Mandate would authorise the Company to purchase or acquire up to ten per cent. (10%) of the total number of issued Shares excluding treasury shares, the Company may not necessarily purchase or acquire or be able to purchase or acquire the entire ten per cent. (10%) of the total number of issued Shares excluding treasury shares.**

### **3.3.9 Tax Implications**

Where the Company uses its profits or contributed capital for the Share purchase:

For Shareholders, proceeds received by them will be treated for income tax purposes like any other disposal of shares. Generally, whether or not such proceeds are taxable in the hands of Shareholders will depend on whether or not such proceeds are receipts of an income or capital nature in the hands of the respective Shareholders.

**Shareholders should note that the foregoing is not to be regarded as advice on the tax position of any Shareholder. Shareholders who are in doubt as to their respective tax positions or the tax implications of Share purchases by the Company, or, who may be subject to tax whether in or outside Singapore, should consult their own professional advisers.**

### **3.3.10 Reporting Requirements**

Within thirty (30) days of the passing of a Shareholders' resolution to approve the purchases of Shares by the Company, the Company shall lodge a copy of such resolution with the Registrar of Companies.

The Company shall notify the Registrar of Companies within thirty (30) days of a purchase of Shares on the SGX-ST or otherwise. Such notification shall include details of the purchases including the date of the purchases, the total number of Shares purchased by the Company, the number of Shares cancelled and the number of Shares held as treasury shares, the Company's issued share capital before and after the purchase of Shares, the amount of consideration paid by the Company for the purchases, and such other information as required by the Companies Act.

The Listing Rules also specify that a listed company shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9:00 a.m. (a) in the case of an On-Market Purchase, on the Market Day following the day of purchase of any of its shares and (b) in the case of an Off-Market Purchase in accordance with an equal access scheme, by 9:00 a.m. on the second Market Day after the close of acceptances of the offer. Such notification shall include details of the maximum number of shares authorised for purchase, the date of purchase, the prices paid

for the total number of shares purchased, the purchase price per share or the highest and lowest purchase price per share and the number of issued shares excluding treasury shares after purchase, in the form prescribed under the Listing Rules. The Company shall make arrangements with its stockbrokers to ensure that they provide the Company in a timely fashion the necessary information which will enable the Company to make the notifications to the SGX-ST.

The Company, upon undertaking any sale, transfer, cancellation and/or use of treasury shares, will comply with Rule 704(28) of the Listing Manual, which provides that an issuer must make an immediate announcement thereof, stating the following:

- (a) date of the sale, transfer, cancellation and/or use;
- (b) purpose of such sale, transfer, cancellation and/or use;
- (c) number of treasury shares sold, transferred, cancelled and/or used;
- (d) number of treasury shares before and after such sale, transfer, cancellation and/or use;
- (e) percentage of the number of treasury shares against the total number of shares outstanding before and after such sale, transfer, cancellation and/or use; and
- (f) value of the treasury shares if they are used for a sale or transfer, or cancelled.

### **3.3.11 Listing Rules**

Under the Listing Rules, a listed company may purchase its own shares by way of On-Market Purchases at a price per share which is not more than five per cent. (5%) above the average of the closing market prices of the shares over the last five (5) Market Days, on which transactions in the shares were recorded, before the day on which the purchases were made, which is deemed to be adjusted for any corporate action that occurs after the relevant period of five (5) Market Days.

The Maximum Price for a Share in relation to On-Market Purchases by the Company conforms to this restriction.

While the Listing Rules do not expressly prohibit any purchase of shares by a listed company during any particular time(s), because the listed company would be regarded as an “insider” in relation to any proposed purchase or acquisition of its issued shares, the Company will not undertake any purchase of Shares pursuant to the Share Purchase Mandate at any time after any matter or development of a price-sensitive nature has occurred or has been the subject of consideration and/or a decision of the Board until such price-sensitive information has been publicly announced. In particular, in line with the best practices on dealing in securities reflected under Rule 1207(19) of the Listing Manual, the Company will not purchase or acquire any Shares through On-Market Purchases during the period of:

- (a) one (1) month immediately preceding the announcement of the Company’s annual (full-year) results; and
- (b) two (2) weeks immediately preceding the announcement of the Company’s results for each of the first three (3) quarters of its financial year.

The Company is required under Rule 723 of the Listing Manual to ensure that at least ten per cent. (10%) of the total number of its Shares (excluding treasury shares) are in the hands of the public. The “public”, as defined under the Listing Manual, are persons other than the directors, chief executive officer, Substantial Shareholders or Controlling Shareholders of the Company and its subsidiaries, as well as the associates (as defined in the Listing Manual) of such persons.

As at the Latest Practicable Date, there are 245,373,774 Shares in the hands of the public (as defined above), representing 28.53% of the total number of Shares (excluding treasury shares), i.e. 860,183,628 Shares. Assuming that (i) the Company purchases its Shares through On-Market Purchases up to the full ten per cent. (10%) limit pursuant to the Share Purchase Mandate and all such Shares purchased are held by the public, and (ii) all Shares purchased by the Company are held as treasury shares, the number of Shares in the hands of the public would be reduced to 164,755,412 Shares, representing 21.13% of the total number of Shares (excluding treasury shares), i.e. 779,565,266 Shares. Accordingly, the Company is of the view that there is a sufficient number of Shares in issue held by public Shareholders which would permit the Company to undertake purchases or acquisitions of its Shares through On-Market Purchases up to the full ten per cent. (10%) pursuant to the proposed Share Purchase Mandate without affecting the listing status of the Shares on the SGX-ST, and that the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity.

In undertaking any purchases of its Shares through On-Market Purchases, the Directors will use their best efforts to ensure that, notwithstanding such purchases, a sufficient number of Shares shall remain in public hands so that the Share purchase(s) will not:

- (A) adversely affect the listing status of the Shares on the SGX-ST;
- (B) cause market illiquidity; or
- (C) adversely affect the orderly trading of the Shares.

### **3.3.12 Obligation to Make a Take-over Offer**

Under Rule 14 of the Code, a person will be required to make a general offer for a public company if:

- (a) he acquires thirty per cent. (30%) or more of the voting rights of the company; or
- (b) he holds between thirty per cent. (30%) and fifty per cent. (50%) of the voting rights of the company and he increases his voting rights in the company by more than one per cent. (1%) in any six (6)-month period.

If, as a result of any purchase or acquisition by the Company of its Shares, the proportionate interest in the voting capital of the Company of a Shareholder and persons acting in concert with him increases, such increase will be treated as an acquisition for the purposes of Rule 14 of the Code. Consequently, a Shareholder or group of Shareholders acting in concert with a Director could obtain or consolidate effective control of the Company and become obliged to make a take-over offer for the Company under Rule 14 of the Code.

Under the Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal) co-operate, through the acquisition by any of them of shares in a company, to obtain or consolidate effective control of that company. Unless the contrary is established, the following persons, *inter alia*, will be presumed to be acting in concert with each other, namely:

- (i) a company with its parent company, subsidiaries, its fellow subsidiaries, any associated companies of the foregoing companies, any company whose associated companies include any of the foregoing companies, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing companies for the purchase of voting rights;
- (ii) a company with any of its directors (together with their close relatives, related trusts and any companies controlled by any of the directors, their close relatives and related trusts);
- (iii) a company with any of its pension funds and employee share schemes;

- (iv) a person with any investment company, unit trust or other fund whose investment such person manages on a discretionary basis, but only in respect of the investment account which such person manages;
- (v) a financial or other professional adviser, including a stockbroker, with its client in respect of the shareholdings of the adviser and the persons controlling, controlled by or under the same control as the adviser and all the funds which the adviser manages on a discretionary basis, where the shareholdings of the adviser and any of those funds in the client total ten per cent. (10%) or more of the client's equity share capital;
- (vi) directors of a company, together with their close relatives, related trusts and companies controlled by any of the foregoing, which is subject to an offer or where they have reason to believe a *bona fide* offer for their company may be imminent;
- (vii) partners; and
- (viii) an individual, his close relatives, his related trusts, any person who is accustomed to act according to his instructions, companies controlled by any of the foregoing persons, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing persons and/or entities for the purchase of voting rights.

For this purpose, ownership or control of at least twenty per cent. (20%) but not more than fifty per cent. (50%) of the equity share capital of a company will be regarded as the test of associated company status.

The circumstances under which Shareholders (including Directors) and persons acting in concert with them respectively will incur an obligation to make a take-over offer under Rule 14 of the Code after a purchase or acquisition of Shares by the Company are set out in Appendix 2 of the Code.

In general terms, under Rule 14 and Appendix 2 of the Code, unless exempted, Directors and persons acting in concert with them will incur an obligation to make a take-over offer for the Company under Rule 14 of the Code if, as a result of the Company purchasing or acquiring its Shares, (A) the voting rights in the Company of such Directors and their concert parties would increase to thirty per cent. (30%) or more or (B) if the voting rights of such Directors and their concert parties fall between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Directors and their concert parties increase by more than one per cent. (1%) in any period of six (6) months. In calculating the percentages of voting rights of such Directors and their concert parties, treasury shares shall be excluded.

Under Appendix 2 of the Code, a Shareholder not acting in concert with the Directors will not incur an obligation to make a take-over offer for the Company under Rule 14 of the Code if, as a result of the Company purchasing or acquiring its Shares, the voting rights of such Shareholder in the Company increases to thirty per cent. (30%) or more, or, if the voting rights of such Shareholder fall between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Shareholder would increase by more than one per cent. (1%) in any period of six (6) months. Such Shareholder need not abstain from voting in respect of the resolution authorising the Share Purchase Mandate.

**Shareholders who are in doubt as to their obligations, if any, to make a mandatory take-over offer under the Code as a result of any purchase or acquisition of Shares by the Company, are advised to consult their professional advisers and/or the Securities Industry Council and/or the relevant authorities at the earliest opportunity.**

Purely for illustrative purposes, on the basis of 860,183,628 Shares (excluding treasury shares) in issue as at the Latest Practicable Date, and assuming that no further Shares are issued on or prior to the AGM, not more than 86,018,362 Shares (representing ten per cent. (10%) of the Shares in issue as at that date excluding treasury shares) may be purchased or acquired by the Company pursuant to the Share Purchase Mandate, if so approved by Shareholders at the AGM.

Assuming that such granted Share Purchase Mandate is validly and fully exercised prior to the next annual general meeting for the Company to purchase the maximum allowed number of Shares being 80,618,362<sup>3</sup> Shares (on the basis that there would have been no change to the number of Shares in issue at the time of such exercise) and that such purchased Shares are not acquired from the Substantial Shareholders, based on the Register of Substantial Shareholders of the Company as at the Latest Practicable Date, the percentage shareholdings of the Substantial Shareholders would be changed as follows:

Name of Substantial Shareholder	Shareholding Before Share Purchase			Shareholding After Share Purchase		
	Direct Interest %	Deemed Interest %	Total Interest %	Direct Interest %	Deemed Interest %	Total Interest %
CNAF <sup>(1)</sup>	–	51.31	51.31	–	56.61	56.61
BPIA	20.17	–	20.17	22.25	–	22.25

**Notes:**

- (1) CNAF is deemed to have an interest in 441,332,912 Shares, representing 51.31% of the total share capital in the Company (excluding treasury shares), held through DBS Vickers Securities (Singapore) Pte Ltd.
- (2) Computation of the above percentage shareholdings excludes treasury shares.

Based on the information set out above, assuming that there is no change to the shareholding interests of the Substantial Shareholders since the Latest Practicable Date, none of the Substantial Shareholders referred to above are expected to incur an obligation to make a general offer to other Shareholders under the Code solely by reason of the Share Purchase Mandate.

### 3.3.13 Previous Share Purchases

There were no Share purchases made by the Company in the twelve (12) months immediately preceding the Latest Practicable Date.

## 4. THE PROPOSED PIPELINE SERVICES CONTRACT

### 4.1 Background of the Pipeline Services Contract

As the Existing Pipeline Services Contract, which was previously approved by Shareholders on 9 January 2009, is due to expire on 1 January 2018, the Company proposes to seek Shareholders' approval for the provision of pipeline transportation services under the Pipeline Services Contract proposed to be entered into between CNAFCL and TSN-PEKCL for an initial 5-year term effective 1 January 2018 with automatic renewal for a further 5-year term upon expiry of the initial term, on the terms described below. Save for the duration<sup>4</sup> of the Pipeline Services Contract, the terms of the Pipeline Services Contract are substantially similar to those of the Existing Pipeline Services Contract.

**TSN-PEKCL is a 49%-owned associated company of the Company and an indirect 51%-owned subsidiary of CNAF, and accordingly, an entity at risk for the purposes of Chapter 9 of the Listing Manual. CNAFCL is a subsidiary of CNAF and therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual. The proposed Pipeline Services Contract is therefore an interested person transaction under Chapter 9 of the Listing Manual.**

### 4.2 Terms of the Pipeline Services Contract

The Pipeline Services Contract is a "framework agreement" which sets out the terms and conditions pursuant to which pipeline transportation services will be provided by TSN-PEKCL to CNAFCL thereunder (which may be subsequently documented in separate contracts).

<sup>3</sup> Please refer to footnote 2 above.

<sup>4</sup> The duration of the Existing Pipeline Services Contract is for 10 years starting from 1 January 2008. The duration of the Pipeline Services Contract (if approved) is expected to start from 1 January 2018.



Upon expiry of the initial 5-year term, the Pipeline Services Contract shall be automatically renewed for a further term of 5 years. In the event that there are changes in the laws, regulations or industrial policies of the PRC which the parties mutually agree might result in a material adverse impact on either TSN-PEKCL or CNAFCL, both TSN-PEKCL and CNAFCL shall be entitled to re-negotiate the terms of the Pipeline Services Contract.

Under the Pipeline Services Contract, CNAFCL shall, except due to circumstances beyond its control, utilise the entire annual capacity of the Pipeline of approximately 3.3 million tonnes per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of each 5-year term of the Pipeline Services Contract (the “**Transportation Capacity**”).

Assuming the Pipeline Services Contract is entered into, TSN-PEKCL shall continue to provide pipeline transportation services to CNAFCL at a pipeline transportation price that is bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, with reference to the pipeline transportation prices prescribed by the National Energy Administration of the PRC. The price for the provision of pipeline transportation services to CNAFCL shall be determined annually. Under the Existing Pipeline Services Contract, pipeline transportation services are charged by TSN-PEKCL to CNAFCL at the rate of RMB 50 for every tonne of jet fuel transported through the Pipeline from Tianjin Nanjiang Port to Beijing Airport. The price of RMB 50 is higher than the minimum pipeline transportation prices currently prescribed by the National Energy Administration of the PRC. It is expected that TSN-PEKCL and CNAFCL will continue to set the pipeline transportation price at the existing price of RMB 50 for every tonne of jet fuel to be transported through the Pipeline from Tianjin Nanjiang Port to Beijing Airport and this will be documented in a side letter. Both TSN-PEKCL and CNAFCL have a right to call for the review of the price for the provision of pipeline transportation services to CNAFCL upon the occurrence of any event that, in the view of both CNAFCL and TSN-PEKCL, could materially affect the business of TSN-PEKCL and/or CNAFCL. Any changes in pricing will require the unanimous approval of the board of directors of TSN-PEKCL, which currently comprises two (2) representatives from the Company and three (3) representatives from CNAF Logistics.

Please refer to **Annex IV** to this Letter for a summary of the terms of the proposed Pipeline Services Contract.

#### **4.3 Applicability of Chapter 9 of the Listing Manual**

Under Chapter 9 of the Listing Manual, where the CAO Group proposes to enter into a transaction with an interested person and the value of the transaction (either by itself or when aggregated with the value of other transactions, each of a value equal to or greater than S\$100,000, with the same interested person during the same financial year) is equal to or exceeds five per cent. (5%) of the Group’s latest audited consolidated NTA, Shareholders’ approval is required in respect of the transaction.

Based on the audited financial statements of the Group for FY2016, the NTA of the Group was US\$648,105,000. Accordingly, if the value of the transaction which is proposed to be entered into in the current financial year by the CAO Group with an interested person is, either by itself or in aggregate with all other earlier transactions (each of a value equal to or greater than S\$100,000) entered into with the same interested person during the current financial year, equal to or in excess of US\$32,405,250, such a transaction would be subject to Shareholders’ approval.

It is not possible for the Company to realistically calculate the value of the transaction as, assuming the Pipeline Services Contract is entered into, the pipeline transportation price for the provision of pipeline transportation services by TSN-PEKCL to CNAFCL will be subsequently bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, with reference to the pipeline transportation prices prescribed by the National Energy Administration of the PRC.

For the purposes of illustration only, based on the maximum Transportation Capacity of 3.3 million tonnes per year at an assumed price of RMB 50 per tonne of jet fuel transported through the Pipeline from Tianjin Nanjiang Port to Beijing Airport (being the current intended pipeline transportation price) and the maximum duration of the Pipeline Services Contract of 10 years, the aggregate value of the pipeline transportation services supplied by TSN-PEKCL to CNAFCL will be RMB 1,650,000,000. Based on the Company's forty-nine per cent. (49%) equity interest in TSN-PEKCL, the value of the transaction for the purposes of Chapter 9 of the Listing Manual is RMB 808,500,000, which amounts to 18.1 per cent. (18.1%) of the Group's latest audited consolidated NTA.

Therefore, the value of the provision of pipeline transportation services from TSN-PEKCL to CNAFCL under the proposed Pipeline Services Contract is likely to be equal to or exceed the five per cent. (5%) threshold under Chapter 9 of the Listing Manual and accordingly, Shareholders' approval is required for the provision of pipeline transportation services under the Pipeline Services Contract on the terms as described herein.

#### **4.4 Rationale for the Pipeline Services Contract and the Benefit of the Pipeline Services Contract to TSN-PEKCL**

The Pipeline Services Contract is effectively a renewal of the Existing Pipeline Services Contract which is expiring on 1 January 2018.

The Company believes that it is beneficial to the Company for TSN-PEKCL to continue providing pipeline transportation services to CNAFCL as the Pipeline Services Contract will provide TSN-PEKCL with an assured revenue flow. In particular, TSN-PEKCL's business will be severely affected should there be a failure to enter into the Pipeline Services Contract given that CNAFCL is currently the sole customer of TSN-PEKCL as well as the sole supplier of jet fuel to Tianjin Nanjiang Port (being a supply point) and Tianjin Airport and Beijing Airport (being termination points). It is therefore unlikely that any other jet fuel supplier will otherwise need to utilise TSN-PEKCL's pipeline transportation services. In other words, if Shareholders do not approve the proposed Pipeline Services Contract and the provision of pipeline transportation services to CNAFCL thereunder, it is possible that the Pipeline will go unutilised, which would be financially detrimental to the operations of TSN-PEKCL.

#### **4.5 Review Procedures for Determining Pipeline Transportation Prices under the Proposed Pipeline Services Contract**

The price for the provision of pipeline transportation services to CNAFCL will be determined annually. It is expected that the existing pipeline transportation price of RMB 50 for every tonne of jet fuel transported through the Pipeline from Tianjin Nanjiang Port to Beijing Airport will continue to apply under the Pipeline Services Contract (if approved). Any changes in pricing of the provision of pipeline transportation services under the Pipeline Services Contract will be determined by unanimous approval of the board of directors of TSN-PEKCL.

To ensure that the provision of pipeline transportation services to CNAFCL will be conducted on normal commercial (or, in the absence of other similar comparable transactions, fair and reasonable) terms and will not be prejudicial to the interests of the Company and its minority Shareholders, the proposed prices for the provision of pipeline transportation services to CNAFCL under the Pipeline Services Contract will be reviewed and approved by members of the Audit Committee who shall have no interest (whether direct or indirect) in the Pipeline Services Contract. In reviewing and determining the future price(s) for the provision of pipeline transportation services under the Pipeline Services Contract, any decision made by the Audit Committee will take into account the following parameters (where applicable):

- (a) any directives or guidelines relating to pipeline transportation prices prescribed by the National Energy Administration of the PRC (or such other PRC authority having jurisdiction to prescribe such prices). The renewed pricing must not be less than the prices prescribed by the relevant PRC authority;
- (b) the prices for pipeline transportation services charged by TSN-PEKCL to CNAFCL immediately prior to the review; and

- (c) comparison of the pipeline transportation prices offered by TSN-PEKCL to CNAFCL and associated costs (such as operating costs and overheads) against the prices and associated costs (such as operating costs and overheads) from a comparable unrelated pipeline transportation business wherever located.

The Audit Committee will also take into account such other factors as it sees relevant in making its decision.

**In approving the proposed Pipeline Services Contract, Shareholders will be granting the Audit Committee the authority to determine the pricing for the provision of pipeline transportation services under the Pipeline Services Contract in accordance with the above parameters. If the Audit Committee decides on a pipeline transportation price that is equal to or above RMB 50 per tonne (being the current intended pipeline transportation price), this will not be subject to Chapter 9 of the Listing Manual. However, if the Audit Committee decides on a pipeline transportation price which is lower than RMB 50 per tonne, such change will be subject to Chapter 9 of the Listing Manual. The Company may be required to make the appropriate announcements and/or seek Shareholders' approval, where required, in consultation with the SGX-ST.**

#### **4.6 Variation of the Terms of the Proposed Pipeline Services Contract and Reduction in the Pipeline Transportation Price (from RMB 50 Per Tonne) Subject to Chapter 9 of the Listing Manual**

Any variation of the terms of the Pipeline Services Contract (which have been outlined in this Letter) and any reduction in the pipeline transportation price under the Pipeline Services Contract (such that it is lower than RMB 50 per tonne, being the current intended pipeline transportation price) will be subject to Chapter 9 of the Listing Manual. The Company may be required to make the appropriate announcements and/or seek Shareholders' approval, where required, in consultation with the SGX-ST.

For the avoidance of doubt, if the Audit Committee decides on a pipeline transportation price that is equal to or above RMB 50 per tonne (being the current intended pipeline transportation price), this will not be subject to Chapter 9 of the Listing Manual.

#### **4.7 Independent Financial Adviser's Opinion**

CIMB Bank has been appointed as the independent financial adviser to advise the Independent Directors (Pipeline Services Contract) as to whether the Pipeline Services Contract (including the current intended pipeline transportation price of RMB 50 per tonne) is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority Shareholders, and whether the methods and procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

Taking into consideration the factors set out in the letter to the Independent Directors (Pipeline Services Contract), CIMB Bank is of the opinion that the Pipeline Services Contract (including the current intended pipeline transportation price of RMB 50 per tonne) is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority Shareholders, and the methods and procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders. The letter dated 31 March 2017 from CIMB Bank to the Independent Directors (Pipeline Services Contract) is reproduced in **Annex V** to this Letter.

#### **4.8 Statement of the Audit Committee**

Having considered, *inter alia*, the terms, rationale for and benefit of the Pipeline Services Contract, the Audit Committee is of the view that the Pipeline Services Contract is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority Shareholders, and the methods and procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders. Dr Zhao Shousen, being a CNAF Director, had abstained from the Audit Committee's review and determination in relation to the above.

### **5. SHAREHOLDERS WHO WILL ABSTAIN FROM VOTING**

#### **5.1 The Proposed Renewal of the IPT Mandate**

By virtue of their interests in the IPT Mandate, as proposed to be renewed, each of CNAF and BPIA will abstain and have undertaken to ensure that their associates will abstain from voting on the ordinary resolution 10 relating to the proposed renewal of the IPT Mandate at the AGM.

Further, each of CNAF and BPIA has agreed to decline to accept appointment as proxy to vote and attend at the AGM in respect of the ordinary resolution 10 relating to the proposed renewal of the IPT Mandate, unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast.

#### **5.2 The Proposed Pipeline Services Contract**

By virtue of its interests in the Pipeline Services Contract, CNAF will abstain and has undertaken to ensure that its associates will abstain from voting on the ordinary resolution 12 relating to the proposed Pipeline Services Contract.

Further, CNAF has agreed to decline to accept appointment as proxy to vote and attend at the AGM in respect of the ordinary resolution 12 relating to the proposed Pipeline Services Contract, unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast.

### **6. DIRECTORS WHO WILL ABSTAIN FROM VOTING**

#### **6.1 The Proposed Renewal of the IPT Mandate**

The BPIA Directors and the CNAF Directors do not hold any Shares as at the Latest Practicable Date. If they subsequently become Shareholders and are entitled to vote at the AGM, they will abstain from voting on the ordinary resolution 10 relating to the proposed renewal of the IPT Mandate at the AGM.

They will also decline to accept appointment as proxy to vote and attend at the AGM in respect of the ordinary resolution 10 relating to the proposed renewal of the IPT Mandate, unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast.

#### **6.2 The Proposed Pipeline Services Contract**

The CNAF Directors do not hold any Shares as at the Latest Practicable Date. If they subsequently become Shareholders and are entitled to vote at the AGM, they will abstain from voting on the ordinary resolution 12 relating to the proposed Pipeline Services Contract.

They will also decline to accept appointment as proxy to vote and attend at the AGM in respect of the ordinary resolution 12 relating to the proposed Pipeline Services Contract, unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast.

## 7. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

7.1 The interests of the Directors in the Shares, as extracted from the Register of Directors' Shareholding, as at the Latest Practicable Date, are set out below:

Name of Director	Direct Interest (No. of Shares <sup>(1)</sup> )	%	Deemed Interest (No. of Shares <sup>(1)</sup> )	%
Ang Swee Tian	110,000	0.0128	–	–
Wang Kai Yuen	57,600	0.0067	120,000 <sup>(2)</sup>	0.0140

**Notes:**

(1) There are 860,183,628 issued Shares as at the Latest Practicable Date (excluding treasury shares).

(2) Held through spouse.

7.2 The interests of the Substantial Shareholders in the Shares as at the Latest Practicable Date are set out below:

Name of Controlling Shareholder	Direct Interest (No. of Shares <sup>(1)</sup> )	%	Deemed Interest (No. of Shares <sup>(1)</sup> )	%
CNAF	–	–	441,332,912 <sup>(2)</sup>	51.31
BPIA	173,476,942	20.17	–	–

**Notes:**

(1) There are 860,183,628 issued Shares as at the Latest Practicable Date (excluding treasury shares).

(2) Held through DBS Vickers Securities (Singapore) Pte Ltd.

## 8. DIRECTORS' RECOMMENDATIONS

### 8.1 The Proposed Renewal of the IPT Mandate

The Independent Directors are of the opinion that the proposed renewal of the IPT Mandate is in the best interests of the Company and is not prejudicial to the interests of minority Shareholders. Accordingly, the Independent Directors recommend that Shareholders vote in favour of the ordinary resolution 10 relating to the proposed renewal of the IPT Mandate at the forthcoming AGM.

### 8.2 The Proposed Renewal of the Share Purchase Mandate

The Directors are of the opinion that the proposed renewal of the Share Purchase Mandate is in the best interests of the Company. Accordingly, the Directors recommend that Shareholders vote in favour of the ordinary resolution 11 relating to the proposed renewal of the Share Purchase Mandate at the forthcoming AGM.

### 8.3 The Proposed Pipeline Services Contract

Having considered the terms of the Pipeline Services Contract, the methods and procedures for determining the pipeline transportation prices under the Pipeline Services Contract and the advice given by CIMB Bank (as set out in **Annex V** to this Letter), the Independent Directors (Pipeline Services Contract) are of the opinion that the provision of pipeline transportation services under the Pipeline Services Contract is in the best interests of the Company. Accordingly, the Independent Directors (Pipeline Services Contract) recommend that Shareholders vote in favour of the ordinary resolution 12 relating to the proposed Pipeline Services Contract at the forthcoming AGM.

**9. DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors (including those who may have delegated detailed supervision of this Letter) collectively and individually accept full responsibility for the accuracy of the information given in this Letter and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Letter constitutes full and true disclosure of all material facts about the proposed renewal of the IPT Mandate, the proposed renewal of the Share Purchase Mandate, and the proposed Pipeline Services Contract, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Letter misleading.

Where information contained in this Letter has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from these sources and/or reproduced in this Letter in its proper form and context.

**10. CONSENT**

CIMB Bank has given and has not withdrawn its written consent to the issue of this Letter with the inclusion of its name and the letter dated 31 March 2017 from CIMB Bank to the Independent Directors (Pipeline Services Contract) (reproduced in **Annex V** to this Letter) and all references thereto, in the form and context in which they appear in this Letter.

Yours faithfully  
For and on behalf of the Board of Directors of  
**China Aviation Oil (Singapore) Corporation Ltd**

Xi Zhengping  
Chairman

## ANNEX I

### GENERAL INFORMATION RELATING TO CHAPTER 9 OF THE LISTING MANUAL

#### SCOPE

Chapter 9 of the Listing Manual applies to transactions which an entity at risk proposes to enter into with a counterparty who is an interested person of the entity at risk.

#### DEFINITIONS

A “**controlling shareholder**” means a person who holds (directly or indirectly) fifteen per cent. (15%) or more of the total number of issued shares excluding treasury shares in the listed company (provided that the SGX-ST may determine that a person who satisfies the foregoing is not a controlling shareholder) or one who in fact exercises control over the listed company.

A “**transaction**” includes (a) the provision or receipt of financial assistance, (b) the acquisition, disposal or leasing of assets, (c) the provision or receipt of services, (d) the issuance or subscription of securities, (e) the granting of or being granted options, and (f) the establishment of joint ventures or joint investments, whether or not in the ordinary course of business, and whether or not entered into directly or indirectly (for example, through one or more interposed entities).

An “**associate**” includes an immediate family member (that is, the spouse, child, adopted child, stepchild, sibling or parent) of a director, chief executive officer or controlling shareholder, the trustees of any trust of which such director, chief executive officer or controlling shareholder or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object, and any company in which such director, chief executive officer or controlling shareholder and his immediate family have an aggregate interest (directly or indirectly) of thirty per cent. (30%) or more, and, where a controlling shareholder is a corporation, “associate” means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of thirty per cent. (30%) or more.

An “**associated company**” means a company in which at least twenty per cent. (20%) but not more than fifty per cent. (50%) of its shares are held by the listed company and/or the listed company's subsidiaries.

An “**entity at risk**” means the issuer, any of its subsidiaries (other than subsidiaries that are listed on the SGX-ST or an approved exchange) or any of its associated companies (other than associated companies that are listed on the SGX-ST or an approved exchange or over which the listed group and/ or its interested person(s) have no control).

An “**interested person**” means a director, chief executive officer or controlling shareholder of the listed company or an associate of such director, chief executive officer or controlling shareholder.

“**control**” means the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of a company.

#### GENERAL REQUIREMENTS

Except for certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested person and are hence excluded from the ambit of Chapter 9, immediate announcement, or immediate announcement and shareholders' approval will be required in respect of transactions with interested persons if certain financial thresholds (which are based on the value of the transaction as compared with the listed company's latest audited consolidated net tangible assets), are reached or exceeded. In particular, shareholders' approval is required where:

- (a) the value of such transaction when aggregated with the values of all other transactions previously entered into with the same interested person (as defined in Chapter 9 of the Listing Manual) in the same financial year of the listed company is equal to or exceeds five per cent. (5%) of the latest audited consolidated net tangible assets of the listed company; or

- (b) the value of such transaction is equal to or exceeds five per cent. (5%) of the latest audited consolidated net tangible assets of the listed company.

#### **GENERAL MANDATE**

A listed company may seek a general mandate from its shareholders for recurrent transactions with interested persons of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses. A general mandate is subject to annual renewal.



## ANNEX II

### GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS

#### 1. RATIONALE FOR THE IPT MANDATE

The IPT Mandate is intended to facilitate transactions in the ordinary course of business of the CAO Group as described in paragraph 3 of this **Annex II** which are recurrent in nature and may be transacted from time to time with the Interested Persons provided that they are carried out on normal commercial (or, in the absence of other similar comparable transactions, commercially reasonable) terms and are not prejudicial to the interests of the Company and its minority Shareholders.

The IPT Mandate is intended to enhance the CAO Group's ability to pursue business opportunities which are time-sensitive in nature, and will eliminate the need for the Company to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders' approval for the entry by the CAO Group into such transactions. This will substantially reduce administrative time and expenses associated with the making of such announcements or the announcement and convening of general meetings from time to time, and allow manpower resources to be focused towards other corporate and business opportunities.

#### 2. CLASSES OF INTERESTED PERSONS

Under the IPT Mandate, the Interested Persons comprise:

- (a) members of the CNAF Group; and
- (b) members of the BP Group,

each of which is deemed to be an Interested Person that the Group will be transacting with.

The list of members of the CNAF Group and the BP Group and the types of transactions which the CAO Group intends to undertake pursuant to the IPT Mandate, are set out in **Annex III** to this Letter. Members of the BP Group and the CNAF Group which are nominated by the Interested Persons expressly named/listed in **Annex III** to enter into transactions with the CAO Group, are also deemed to be Interested Persons listed in **Annex III** with which the CAO Group may transact under the IPT Mandate. It is also to be noted that as the CNAF Group and the BP Group undertake internal restructuring exercises from time to time, the list of members from the respective groups as well as the types of transactions to be transacted with each member will be subject to change.

Paragraph 3 of this **Annex II** sets out the background to, and describes the nature of, the Interested Person Transactions with the CNAF Group and the BP Group respectively which are covered under the IPT Mandate.

#### 3. CATEGORIES OF INTERESTED PERSON TRANSACTIONS

##### 3.1 Interested Person Transactions with the CNAF Group

Transactions between the CAO Group and the CNAF Group covered by the IPT Mandate include:

- (a) the sales and purchases of Petroleum Products to the CNAF Group, whether pursuant to the terms of the Supply Agreements or otherwise;

- (b) the provision and receipt of supply chain services including, but not limited to:
  - (i) the procurement of shipping and logistics services from CNAF Logistics for the transport of Petroleum Products by sea (including the chartering of ships, whether on a time charter or fixed voyage basis, and the rental of tankages);
  - (ii) the provision of import agency services for Petroleum Products to LandOil and other members of the CNAF Group; and
  - (iii) the provision of into-plane fuelling services by CNAF HKR and other members of the CNAF Group; and
- (c) the provision of Treasury Services by CNAF Finance to the CAO Group, and the provision of Treasury Services by the CAO Group to Approved Entities which are members of the CNAF Group.

Presently, the CAO Group does not intend to engage in the trading of Derivative Financial Instruments with the CNAF Group. As such, the IPT Mandate does not cover transactions involving the trading of Derivative Financial Instruments with the CNAF Group.

### **3.1.1 Sales and Purchases of Petroleum Products**

#### *Supply Agreements*

On 2 February 2016, the CNAFCL Supply Agreement, which was previously renewed and extended to 6 August 2016, was further renewed and extended to 6 August 2018, on substantially similar terms. The Audit Committee had reviewed the terms of the proposed extension of the CNAFCL Supply Agreement prior to entry into the agreement.

Under the CNAFCL Supply Agreement, the Company is to purchase aviation fuel on a proprietary basis (and not as agent of CNAFCL), and then sell the aviation fuel to CNAFCL (or its designated import agents) on a proprietary basis.

The pricing at which the Company is to sell aviation fuel to CNAFCL under the CNAFCL Supply Agreement is either: (a) through a competitive tender exercise whereby the price charged to CNAFCL is the tender price, plus a fixed margin component, or (b) at an agreed price based on a market pricing benchmark for the aviation fuel to be supplied, plus a pre-agreed fixed premium and a fixed margin component. In this context, the term “fixed margin” refers to an agreed fixed amount that the Company receives over and above its costs of procuring the aviation fuel; and the term “pre-agreed fixed premium” refers to the additional fixed amount pre-agreed between the Company on the one hand and CNAFCL on the other, which is over and above the agreed price/market pricing benchmark (such as from Platts Singapore or any other global provider of energy pricing information) of the aviation fuel to be supplied. In procuring aviation fuel from the suppliers, the Company also pays its suppliers a premium over and above the cost of the aviation fuel in line with prevailing market practice in the industry. The Company will not proceed with a sale under the method described in (b) above (i.e. at an agreed price based on a market pricing benchmark for the aviation fuel to be supplied, plus a pre-agreed fixed premium and a fixed margin component), if the overall sale price chargeable to CNAFCL is less than the Company’s breakeven price for the aviation fuel. Any subsequent substantive amendments to, or renewal or extension of, the CNAFCL Supply Agreement shall also be reviewed and approved by the Audit Committee.

On 2 February 2016, the Bluesky Supply Agreement, which was previously renewed and extended to 1 April 2016, was also further renewed and extended to 1 April 2018, on substantially similar terms (save for pricing). The Audit Committee had reviewed the terms of the proposed extension of the Bluesky Supply Agreement prior to entry into the agreement.

Under the Bluesky Supply Agreement, the Company is to purchase aviation fuel on a proprietary basis (and not as agent of Bluesky), and then sell the aviation fuel to Bluesky (or its designated import agents) on a proprietary basis.

The pricing at which the Company is to sell aviation fuel to Bluesky under the Bluesky Supply Agreement is either: (i) through a competitive tender exercise whereby the price charged to Bluesky is the tender price, plus a fixed margin component, or (ii) at an agreed price based on a market pricing benchmark for the aviation fuel to be supplied, plus a fixed margin component. In this context, the term “fixed margin” refers to an agreed fixed amount that the Company receives over and above its costs of procuring the aviation fuel. In procuring aviation fuel from the suppliers, the Company also pays its suppliers a premium over and above the cost of the aviation fuel in line with prevailing market practice in the industry. The Company will not proceed with a sale under the method described in (ii) above (i.e. at an agreed price based on a market pricing benchmark for the aviation fuel to be supplied, plus a fixed margin component), if the overall sale price chargeable to Bluesky is less than the Company’s breakeven price for the aviation fuel. Any subsequent substantive amendments to, or renewal or extension of, the Bluesky Supply Agreement shall also be reviewed and approved by the Audit Committee.

The Supply Agreements further set out other details regarding the procurement process, such as the periodic requirements for aviation fuel of CNAFCL and Bluesky, tender preparations by the Company, qualifications of suppliers, tender methods and notification of tender results.

**Bluesky is a subsidiary of CNAFCL. As CNAFCL is a subsidiary of CNAF, CNAFCL and Bluesky are therefore interested persons of the Company for the purposes of Chapter 9 of the Listing Manual.**

#### *Ad Hoc Supplies of Aviation Fuel*

In addition to the supply of aviation fuel to CNAFCL and Bluesky under the Supply Agreements, the CAO Group intends to undertake the supply of aviation fuel to, *inter alia*, members of the CNAF Group on an *ad hoc* basis. Where the CAO Group undertakes such supplies of aviation fuel to the CNAF Group, such supplies will be made on terms similar to the Supply Agreements, that is, the relevant products will be procured by the CAO Group on a proprietary basis and sold onward to the CNAF Group at the same premium as computed in line with the methodology described for the respective Supply Agreements above.

#### *Physical Trading in Petroleum Products*

The CAO Group may engage in the physical trading of Petroleum Products with any member of the CNAF Group if that member meets the Company’s eligibility requirements.

The bases for the pricing of Petroleum Products in physical trades to be sold or purchased by the CAO Group are in line with current market practices and involve two (2) pricing components namely, Mean of Platts Singapore (“**MOPS**”) plus a fixed premium or less a fixed discount. MOPS refers to the mean of the high and low components of a Platts assessment for cargoes of oil products (including Petroleum Products) loading from Singapore. Platts is a leading global provider of energy and metals information. The amount of premium for a particular transaction is determined by negotiations between the trading parties which will *inter alia* depend on the quality of the Petroleum Products and other relevant market factors and conditions.

The Risk Management Committee holds the overall responsibility of ensuring that risk management controls and processes have been duly followed. This responsibility is delegated to the chief executive officer of the Company and subsequently to the head of risk management of the Company for daily operational activities.

### 3.1.2 Supply Chain Services

#### *Background*

As part of the Company's continuing development of its capabilities, the Company is seeking to optimise its supply chain capabilities through enhancing its current business model. To this end, it seeks to be able to improve its supply chain optimisation capabilities beyond merely ensuring the quality and timely delivery of oil product shipments, to working with traders to ensure the most cost-effective ways to ship oil products in light of the Company's supply and trading portfolio as a whole. For example, rather than chartering ships on an individual voyage basis, the Company believes that it may be more efficient operationally and financially to enter into a time charter agreement in respect of a number of physical movements of oil products, or to enter into shipping arrangements with other suppliers on a collaborative basis.

#### *Purchase of Shipping and Logistics Services*

To this end, the Company works with several ship owners and logistics services providers. The key attributes by which these potential suppliers are selected include their competitiveness, their respective track records in handling the quality of oil products which the Company supplies, as well as their presence in the North Asian aviation fuel shipment market. In the course of sourcing for such suppliers, the Company anticipates that it may enter into shipping and logistics services arrangements, such as multiple voyages or time charter contracts, rental of tankages and other aviation fuel transportation arrangements with CNAF Logistics, if it is of the view that CNAF Logistics is able to offer competitive terms for their shipping and logistics services or if CNAF Logistics is the only shipping service provider which is able to meet the technical and delivery specifications stipulated by CAO's end customers. Further, the Company purchases Petroleum Products from various members of the BP Group and in turn sells the same to the receivers in PRC or other buyers. In the course of its supply to such buyers, the Company will in some cases need to purchase shipping and logistics services. As an example, CAO may buy Petroleum Products on FOB basis and sell the same on CFR basis, for which CAO will require freight services and it may engage CNAF Logistics to provide the freight services. In certain cases, CNAF Logistics may be the only shipping service provider which will be able to meet the technical and delivery specifications stipulated by CAO's end customers. If CAO buys on FOB basis and sells on FOB basis, CAO will not need freight services as CAO's buyer will be responsible for the freight arrangements. If CAO buys on CFR basis and sells on CFR basis, CAO will not need freight services.

For Petroleum Products which the CAO Group buys on FOB basis and sells to CNAFCL and Bluesky on CFR basis, the CAO Group will be required to obtain freight services from CNAF Logistics for the transportation of the said Petroleum Products to CNAFCL and Bluesky, as CNAF Logistics is the only shipping service provider which will be able to meet the technical and delivery specifications stipulated by CNAFCL and Bluesky. To this end, CAO and CNAF Logistics have entered into the Term Charter Party Agreement pursuant to which freight services will be provided to the CAO Group at certain pre-agreed rates for the transportation of Petroleum Products. It is intended that the freight charges incurred by the CAO Group under this arrangement will be correspondingly reflected in the increased pricing at which the CAO Group is to sell the Petroleum Products to CNAFCL and Bluesky.

The Term Charter Party Agreement, which took effect on 1 May 2014 and was due to expire on 30 April 2015, was extended on the same terms (save for the delivery schedule, duration and pricing) by way of a new agreement dated 10 February 2015 and will expire on 30 April 2017. The Term Charter Party Agreement has been further extended by 2 years on the same terms. The extension of the Term Charter Party Agreement was reviewed by the Audit Committee in accordance with the IPT Mandate. Under the Term Charter Party Agreement, the Company has agreed to charter ships operated by CNAF Logistics for the physical deliveries of the Petroleum Products to the following delivery routes: (1) Gaoqiao-Yangshan; (2) Jinling-Yangshan; (3) Dalian-Tianjin; (4) Yangshan-Puhang; (5) Maoming-Guangzhou; (6) Jinling-Chongqing; (7) Yangshan-Xiamen; (8) Dalian-Qinhuangdao; (9) Gaolan-Guangzhou; (10) Jinshan-Yangshan; (11) Yangshan-Tianjin; (12) Zhenhai-Puhang/Gaoqiao; (13) Jinshan-Puhang/Gaoqiao; (14) Jinling-Puhang/Gaoqiao; (15) Zhenhai-Yangshan; and (16) Qingdao-Puhang.

**As CNAF Logistics is a subsidiary of CNAF, CNAF Logistics is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

*Supply of Import Agency Services*

As the Group builds up its supply chain optimisation capabilities, there may be other supply-chain and logistics-related services provided or to be provided by the Group to the CNAF Group, such as import agency arrangements that the Group intends to provide to LandOil. Under the import agency arrangements, the Company will be paid a fixed commission that is in line with the margins quoted in the markets for similar supply of import agency services and is determined by a bilateral negotiation between the Company and the relevant member of the CNAF Group (which in cases of import agency services, is LandOil).

**As LandOil is a subsidiary of CNAF, LandOil is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

*Procurement of Into-Plane Fuelling Services*

Part of the CAO Group's business involves the supply of jet fuel to airline companies at various airports around the world. In order to deliver jet fuel directly into the aircrafts of the customers, the CAO Group is required to engage the services of an into-plane fuelling services provider. The number of such service providers who are authorised to provide into-plane fuelling services at any airport is generally very limited. For example, there are currently only three (3) authorised into-plane fuelling services providers at HKIA, one of which is CNAF HKR, a member of the CNAF Group. From time to time, the other two (2) service providers at HKIA may be unable or unwilling to provide fee quotations, due to commercial or other reasons, or may not be available or have the capacity to accommodate CAO HK's service requests. If so, unless CAO HK engages the services of CNAF HKR, it will not be able to deliver jet fuel to its customers' aircrafts at HKIA, which would in turn adversely impact the business or operations of CAO HK. It is therefore not administratively practicable or desirable for CNAF HKR to be excluded as an option for into-plane fuelling services solely on the basis that CNAF HKR is an Interested Person. Thus, in order for CAO HK to be able to supply jet fuel to its customers at HKIA, CAO HK may from time to time obtain into-plane fuelling services from CNAF HKR.

To address the said situation at HKIA, CAO HK and CNAF HKR have entered into an agreement on 15 February 2016 ("**Into-Plane Fuelling Services Framework Agreement**") and pursuant to which, into-plane fuelling services will be provided to CAO HK on a non-exclusive basis (at CAO HK's request) in connection with the supply of jet fuel by CAO HK to airline companies at HKIA, based on certain pre-agreed maximum rates and terms for a term of ten (10) years. The rates and terms of the Into-Plane Fuelling Services Framework Agreement were reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with the IPT Mandate, and any subsequent substantive amendments to, or renewal or extension of, the Into-Plane Fuelling Services Framework Agreement shall also be reviewed and approved by the Audit Committee.

**As CNAF HKR is an associate of CNAF, CNAF HKR is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.1.3 Provision of Treasury Services by and to Member(s) of the CNAF Group**

*Treasury Services provided by CNAF Finance*

CNAF Finance has an arrangement with members of the CNAF Group pursuant to which such members may place their excess funds with CNAF Finance from time to time, in respect of which CNAF Finance will pay interest at rates which are agreed between parties. In turn, CNAF Finance, which holds primary accounts with banks ("**Deposit Banks**") such as Agricultural Bank of China Co, Ltd and PingAn Bank Co., Ltd, will from time to time place such consolidated funds with the Deposit Banks. CNAF Finance is typically able to obtain relatively preferential terms from the Deposit Banks than what would have been generally available to the individual members, given the relatively larger size of the placements, which benefit CNAF Finance will be able to pass on to such members.

CNAF Finance has extended this arrangement to the CAO Group, and from time to time, the CAO Group may also place funds with CNAF Finance for which the CAO Group will receive interest from CNAF Finance on such amounts. The CAO Group may be able to obtain more competitive rates and quotes in an expeditious manner from CNAF Finance for such placement of funds, than what would have been generally available to the CAO Group in the market.

Additionally, the CAO Group may from time to time borrow funds from CNAF Finance. The CAO Group may be able to obtain more competitive rates and quotes for such borrowing of funds provided in an expeditious manner by CNAF Finance, than what would have been generally available to the CAO Group in the market.

All funds placed with CNAF Finance by the CAO Group will be guaranteed by a corporate guarantee provided by CNAF.

The CAO Group is required under PRC law to engage the services of a duly licensed financial institution in the PRC (referred to as “**Entrust Loan Arrangement Services**”) in order to provide loans to Approved Entities based in the PRC. CNAF Finance is duly licensed to provide such Entrust Loan Arrangement Services in the PRC. The CAO Group may engage CNAF Finance for the provision of such Entrust Loan Arrangement Services in connection with such loans if CNAF Finance’s charges are no higher than what the CAO Group would otherwise have been able to secure in the market.

*Treasury Services provided by the CAO Group to Investee Companies and other members of the CNAF Group*

The CAO Group may also from time to time provide loans to the Investee Companies and other members of the CNAF Group (together with the Investee Companies, the “**Approved Entities**”) and grant guarantees in favour of third parties for the purposes of the Investee Companies. Such Investee Companies may also be Interested Persons, such as CNAF HKR. From time to time, the CAO Group may be required to provide loans to CNAF HKR or grant guarantees in favour of third parties for the purposes of CNAF HKR, which may or may not be in proportion to the CAO Group’s equity interest in CNAF HKR. The CAO Group will look to charge interest for the provision of such loans to Approved Entities, at rates which are higher than what is offered in the market, and will also charge fees as appropriate for the grant of such guarantees in favour of third parties for the purposes of the Investee Companies.

A loan shall only be provided by the CAO Group to an Approved Entity which is not also an Investee Company in the form of a “cashflow or credit support” facility, and shall be subject to the following requirements: (a) the terms of the said facility shall expressly restrict the said Approved Entity to use the funds solely for the acquisition of additional goods and services from the CAO Group; and (b) the CAO Group will undertake a credit assessment process to ascertain the creditworthiness of the said Approved Entity before accepting it as a counterparty. The credit assessment process must be undertaken by a person who shall have no interest (whether direct or indirect) in said facility or the acquisition by the said Approved Entity of goods and services from the CAO Group.

All loans to Approved Entities will be guaranteed by a corporate guarantee provided by CNAF.

**As CNAF is a Controlling Shareholder, each member of the CNAF Group, including CNAF Finance and CNAF HKR, is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.2 Interested Person Transactions with the BP Group**

The CAO Group enters into transactions with the BP Group from time to time in the ordinary course of its business. Transactions with the BP Group that are covered by the IPT Mandate include purchases and/or sales of Petroleum Products and Derivative Financial Instruments to and/or from the BP Group such as:

- (a) sales of Petroleum Products to members of the BP Group;

- (b) purchases of Petroleum Products from members of the BP Group for onward sale to customers;
- (c) trading of Derivative Financial Instruments with members of the BP Group;
- (d) the procurement of supply chain services from members of the BP Group; and
- (e) provision of Services by member(s) of the BP Group.

### 3.2.1 Physical Trading of Petroleum Products

Given the BP Group's significant presence in the Petroleum Products trading markets, the CAO Group's trading counterparties, amongst others, include members of the BP Group if each such member meets the CAO Group's trading counterparty eligibility requirements.

The CAO Group undertakes the following types of trading transactions with the BP Group:

- (a) sales of Petroleum Products to members of the BP Group, predominantly on a proprietary basis;
- (b) purchases of aviation fuel from members of the BP Group for onward sale to customers outside of the PRC; and
- (c) purchases of Petroleum Products (other than aviation fuel) from the BP Group whether for onward sales to customers of the CAO Group in the PRC or elsewhere.

As disclosed in paragraph 3.1.1 of this **Annex II**, the bases for the pricing of Petroleum Products in physical trades to be sold or purchased by the CAO Group are in line with current market practices and involve two (2) pricing components namely, MOPS, which is information available to the market by Platts plus a fixed premium or less a fixed discount. The amount of premium for a particular transaction is determined by negotiations between the trading parties which will, *inter alia*, depend on the quality of the Petroleum Products and other relevant market factors and conditions.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### 3.2.2 Trading of Derivative Financial Instruments

A wide range of participants trade in the oil products derivatives markets, ranging from banks (such as Morgan Stanley and Goldman Sachs), oil majors (such as the BP Group, Royal Dutch Shell plc and Chevron Corporation), national oil companies (such as Petroliaam Nasional Berhad (Petronas), PetroChina Company Limited and Singapore Petroleum Company Ltd) and trading houses (such as Vitol BV and Glencore International AG). Each market participant has different reasons for its involvement in derivatives trading, such as for hedging purposes or proprietary trading. As the BP Group is one of the major players in the market, members of the BP Group are the CAO Group's trading counterparties from time to time.

The Derivative Financial Instrument transactions that the CAO Group enters into, whether with the BP Group or any other counterparties, are conducted on a basis commonly used by the Derivative Financial Instruments markets for oil products around the world. Transactions range from those highly regulated by exchanges such as the New York Mercantile Exchange to over-the-counter ("**OTC**") contracts negotiated bilaterally between counterparties. Exchange traded contracts are highly standardised and transparent with commodities exchanges publishing daily volumes traded and closing prices. While OTC contracts are negotiated bilaterally, they are generally standardised in nature with slight variations in contractual terms as agreed between counterparties. The high degree of standardisation in OTC contracts enables such contracts to have increased transparency and hence, liquidity in the derivatives market. In the Singapore market, the most common oil Derivative Financial Instruments are swaps which are commonly traded on an OTC basis. Market participants could either trade directly with each other, or more

commonly, through brokers. Depending on the nature of the commodity, there could be one or more brokers operating in the market. Brokers obtain their quotes independently of other market participants, and as such brokers' quotations are accepted by the Derivative Financial Instruments industry as indications of the market value of a Derivative Financial Instrument. As such, Platts (an independent source of oil prices) also uses brokers' quotations in their price considerations.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.2.3 Procurement of Shipping and Logistics Services**

In line with the Company's plans to optimise its supply chain capabilities and for so long as the BP Group is in the view of the Company able to provide shipping and logistics services on competitive terms, the CAO Group may from time to time procure such services from the BP Group. The services procured from the BP Group include the chartering of vessels from the BP Group on time charter agreement in respect of a number of physical movements of oil products, the rental of tankages from the BP Group, or the entry into of shipping arrangements together with the BP Group on a collaborative basis.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

**3.2.4** *[This paragraph has been deleted.]*

### **3.2.5 Provision of Services by Member(s) of the BP Group**

In line with the Company's continuing plans to build on and strengthen its position in the relevant markets, the CAO Group may from time to time opt to tap on the relevant expertise, industry know-how (such as information-sharing, marketing, training and risk management, secondment of staff and other related services) and business networks of member(s) of the BP Group by entering into agreements for the provision of Services with member(s) of the BP Group.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

## **4. BENEFITS OF THE INTERESTED PERSON TRANSACTIONS TO THE GROUP**

### **4.1 Benefits of Transacting with the CNAF Group**

The transactions with the CNAF Group contribute a substantial portion of the revenue of the Company, and in fact as at the Latest Practicable Date, the transactions under the Supply Agreements contribute significantly to the revenue of the Company. Under the Supply Agreements, the Company is assured of a fixed margin over its costs of supply of aviation fuel to the Interested Persons for its procurement services.

Through the Supply Agreements, the Company was appointed the exclusive supplier of all imported aviation fuel requirements of CNAFCL and Bluesky sourced from outside of the PRC (in respect of the airports in Beijing Airport and Guangzhou Baiyun International Airport respectively), on a proprietary basis. Since 6 August 2008, being the date the IPT Mandate was first adopted and approved, and to the extent that the relevant Interested Persons have requirements for imported aviation fuel during the term of the Supply Agreements, the Company has been their exclusive procurement supplier. Each of the Supply Agreements will be extended or renewed for a further term upon the mutual agreement of the parties.

A key benefit of obtaining a mandate for interested person transactions with the CNAF Group in relation to the trading of Petroleum Products is that it provides the CAO Group with an increased number of potential trading partners, thereby giving the CAO Group additional options and flexibility in managing its business and trading strategy in relation to the Petroleum Products.



In relation to the procurement of supply chain services from the CNAF Group, CNAF Logistics possesses logistics facilities for the transportation of aviation fuel, including tanker, jetty, pipeline and shipping facilities. Cooperation between the Company and CNAF Logistics will afford the Company an opportunity to extend its supply chain capabilities, for example, by being able to offer integrated supply chain services for petrochemical products and to arrange for international shipping to domestic transportation. As explained above, there are typically a very limited number of into-plane fuelling services providers at any airport, and not all of them may be available to take on assignments or to even provide fee quotations, due to commercial or other reasons, at the request of the CAO Group. Thus, there would be situations where it would be very difficult for the CAO Group to secure the requisite into-plane fuelling services in order to deliver jet fuel to its customers at the affected airport. By enabling the CAO Group to engage the services of a service provider which happens to be a member of the CNAF Group under the IPT Mandate, the CAO Group's range of alternatives in this restricted and specialised market would be significantly expanded. Further, the CAO Group will be able to continue delivering jet fuel to its customers at the affected airport through the relevant member of the CNAF Group, even if the other third party service providers are unable or unwilling to meet the CAO Group's service requests. Such flexibility will therefore be of commercial benefit to the CAO Group.

The provision of import agency services to members of the CNAF Group (including LandOil) will provide the CAO Group with an opportunity to develop its capabilities and expand the range of products offered to its customers.

#### **4.2 Benefits of Transacting with the BP Group**

The Company continues to seek to increase the scope of its ordinary trading operations with suitable players in the market both in terms of increasing the variety of products it can trade in, as well as enlarging its customer base to reach markets beyond the PRC, in order to increase the sources of income for the Company. As the BP Group is one of the major players in the oil products derivatives markets, one of the key benefits of obtaining the IPT Mandate is that it provides the CAO Group with an increased number of potential trading partners, thereby giving the CAO Group additional options and flexibility in managing its business and trading strategy in relation to Petroleum Products and Derivative Financial Instruments. Also, this is in line with CAO's aim to trade with all the major players in the oil products derivatives markets such that the Company can obtain the most competitive prices for its transactions. Further, the CAO Group expects to benefit from the synergies arising from the collaboration with the BP Group on supply chain services.

While the CAO Group is a key supplier of imported aviation fuel in the PRC market, it has a minor presence in other markets and has found it difficult to penetrate into them on its own in order to grow geographically. Obtaining competitive pricing for a small player in these markets is often difficult. The BP Group, on the other hand, is one of the dominant players in the Australian, Middle Eastern, Singaporean and European markets. Accepting Services from the member(s) of the BP Group will also provide the CAO Group with an invaluable resource as the CAO Group will be able to tap on the relevant expertise, industry know-how (such as information-sharing, marketing, training, risk management, secondment of staff and other related services) and business networks of such member(s) of the BP Group or to reap the benefits of efficiencies and economies of scale through the provision of Services by the member(s) of the BP Group for the CAO Group's and the BP Group's mutual benefits. In this way, the Company can continue to build on and strengthen its position in the relevant markets.

## **5. TRANSACTIONS NOT COVERED BY IPT MANDATE**

### **5.1 Transactions under the Existing Pipeline Services Contract<sup>1</sup>**

As prior Shareholders' approval has been obtained for the provision of pipeline transportation services by TSN-PEKCL to CNAFCL under the Existing Pipeline Services Contract, the IPT Mandate does not cover such transactions pursuant to the Existing Pipeline Services Contract. However, any variation of the terms of the Existing Pipeline Services Contract which have been outlined in the Company's circular to Shareholders dated 15 December 2008 and any variations in the prices charged for pipeline transportation services, will be subject to Chapter 9 of the Listing Manual.

### **5.2 Transactions outside the Scope of the IPT Mandate**

Transactions with the Interested Persons which do not fall within the ambit of the IPT Mandate shall be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual. Shareholders are also to note that the IPT Mandate does not extend to include the trading of Derivative Financial Instruments between the CAO Group and the CNAF Group.

The IPT Mandate does not cover any transaction by a company in the CAO Group with Interested Persons that is below S\$100,000 in value as the threshold and aggregation requirements of Chapter 9 of the Listing Manual would not apply to such transactions. In addition, the IPT Mandate does not include transactions for the purchase or sale of assets, undertakings or businesses with the Interested Persons.

## **6. REVIEW PROCEDURES FOR INTERESTED PERSON TRANSACTIONS**

To ensure that the Interested Person Transactions are conducted on normal commercial (or, in the absence of other similar comparable transactions, fair and reasonable) terms and will not be prejudicial to the interests of the Company and its minority Shareholders, as a general rule the CAO Group will only enter into transactions with the Interested Persons if the terms offered by or extended to the Interested Persons are respectively no less favourable or more favourable than the terms that may be obtainable from or extended to unrelated third parties.

### **6.1 Review procedures for determination of premium or amendment of premium or margin under the Supply Agreements and for extension or renewal of the Supply Agreements**

To ensure that any determination of the premium payable under the Supply Agreements, any amendment to the premium or margin under the Supply Agreements, and any future extension or renewal of the Supply Agreements will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders, the Audit Committee has adopted the following review procedures:

- (a) If, as of the date on which the CAO Group proposes to determine the premium payable under the Supply Agreements, or amend the premium or margin under the Supply Agreements, or extend or renew any Supply Agreement, the CAO Group does not supply or purchase aviation fuel, the product being supplied under the relevant contract, of the same or similar specifications as specified under the relevant contract, in any significant amount to or from other unrelated third parties (as the case may be), so that it is not possible to compare the proposed premium or margin or proposed terms of the extended or renewed Supply Agreement against the premium, margin and/or terms of other transactions with unrelated third parties, the premium or margin or the CAO Group's pricing for its supply or purchase of aviation fuel of the relevant specifications to or from Interested Persons (as the case may be) as set out in the extended or renewed Supply Agreement will be verified by any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transactions concerned and shall not be involved in the negotiations of the premium or margin or the negotiations of the extension or renewal of the relevant Supply Agreement.

<sup>1</sup> The Existing Pipeline Services Contract is due to expire on 1 January 2018. The Company proposes to seek Shareholders' approval for the Pipeline Services Contract to be entered into between CNAFCL and TSN-PEKCL. If the Pipeline Services Contract is approved and entered into, references to "Existing Pipeline Services Contract" in this Annex II will extend to include the Pipeline Services Contract when it is in effect, to the extent applicable.

In undertaking such verification, the two (2) Senior Executives or other appointed persons will, on a best efforts basis, obtain reference prices and/or quotations from the external markets via the CAO Group's existing aviation fuel suppliers (for example, by obtaining from such suppliers indicative margins and premiums that they are charging for their sales and estimates of freight charges for delivering the aviation fuel of the relevant specifications to the relevant destination). They will then verify that the proposed margin and/or premium is/are consistent with or better than such indicative market rates as a rough benchmark or gauge of the then applicable pricing of aviation fuel.

It is to be noted that there are limitations on making meaningful and fair comparisons of reference prices and quotations for aviation fuel imports into the PRC, as CAO currently only supplies aviation fuel (sourced from outside the PRC) in substantial amounts to CNAFCL and Bluesky for imports into the PRC and does not supply aviation fuel in any significant amount to other unrelated third parties, and it is difficult to obtain comparable reference prices and quotations on a like-for-like basis due to differences in sizes, delivery dates, quantity loads and locations of cargoes. It may not be possible to obtain meaningful comparable reference prices and/or quotations from the external markets via the CAO Group's existing aviation fuel suppliers, such that verification by the two (2) Senior Executives (or other appointed persons) would not be meaningfully conducted. In such circumstances, any subsequent substantive amendments to the terms of the Supply Agreements, and any extension or renewal of the Supply Agreements, will be reviewed and approved by the Audit Committee.

- (b) If, as of the date on which the CAO Group proposes to determine the premium payable under the Supply Agreements, or amend the premium or margin under the Supply Agreements, or extend or renew any Supply Agreement, the CAO Group does supply or purchase aviation fuel, the product being supplied or purchased under the relevant contract, of the same or similar specifications as specified under the relevant contract, in a significant amount to or from other unrelated third parties (as the case may be), the price and terms of at least two (2) other successful sales or purchases of aviation fuel of the relevant specifications to or from unrelated third parties (as the case may be) will be used as a basis for comparison, whenever possible, to determine whether the premium or margin or the prices and terms proposed to be included in the extended or renewed Supply Agreement are comparable to those offered by unrelated third parties for such successful sales or purchases (as the case may be) of aviation fuel of the relevant specifications, taking into account all pertinent factors including, but not limited to, price, quality, delivery time and track record, to ensure that the interests of its minority Shareholders are not disadvantaged.

## **6.2 Review procedures for transactions with the Interested Persons involving purchases and/or sales of Petroleum Products (other than under the Supply Agreements)**

In respect of transactions comprising purchases and/or sales of Petroleum Products by the CAO Group from or to any Interested Person, in addition to the credit assessment process undertaken by the CAO Group on all potential parties for Petroleum Products before accepting that Interested Person as a counterparty:

- (a) When selling and purchasing Petroleum Products to and from an Interested Person, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract shall, where practicable or possible, compare the terms offered by or to the Interested Person against the terms of at least one (1) other quotation obtained from unrelated third parties of similar quantities and/or quality of the relevant Petroleum Products, prior to the entering into of the contract or transaction with the Interested Person, as a basis for comparison, and such comparisons, if any, are to be documented. In determining the competitiveness of the quotations (including those by and to the Interested Person), all pertinent factors, including but not limited to pricing, quality, delivery time and track record, and where applicable, preferential rates, rebates or discounts accorded for

bulk purchases will be taken into consideration. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.

For the purposes of this review procedure in determining whether it is practicable or possible to compare the terms offered by or to the Interested Person against the terms of at least one (1) other quotation obtained from unrelated third parties, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract, shall follow the existing control guidelines approved by the Audit Committee. Amendments to the control guidelines shall be made in accordance with any subsequent changes to the IPT Mandate, and will be subject to review by the internal auditors from time to time.

- (b) Where such quotations are not obtainable, the transactions with the Interested Person will be reviewed against recent actual transactions of similar nature published in recognised industry publications or as published on a recognised commodities exchange. In determining the competitiveness of these published terms, the two (2) Senior Executives involved in the review will have to take into consideration the same pertinent factors as mentioned above.
- (c) Due to the nature of the markets in which the CAO Group operates, involving purchases and/or sales of Petroleum Products, situations will commonly occur wherein there are no available quotations from unrelated third party suppliers or purchasers, and published rates of recent actual transactions of similar nature published in recognised industry publications or as on recognised commodities exchanges are not available, applicable or comparable. For all such situations the transaction will be reviewed and approved by any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract, after taking into consideration factors such as, but not limited to, delivery schedules, market pricing, quantity, credit terms, the margin that CAO Group will receive if CAO is acting as reseller of the Petroleum Products that are purchased, and the restrictive business or regulatory environment in which the CAO Group operates and the transaction is undertaken. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.
- (d) Due to the nature of the markets in which the CAO Group operates, involving purchases and sales of Petroleum Products, situations will also commonly occur where a trader acting for the CAO Group may conduct purchases and/or sales of Petroleum Products via a voice-based, online or electronic telecommunication-based trading platform where transactions are fast-paced and undertaken in a series of buy or sell prices offered by traders or brokers which are accepted by other traders or brokers participating in the trading platform. In the case of the voice-based trading platform, the CAO Group appoints broker(s) to source for quotes from the market which are then provided to the CAO Group's traders for confirmation. In all these cases, the CAO Group's trader in practice may be required to enter into an almost instantaneous transaction based on his assessment of the best available price then quoted on the trading platform. The counterparty may or may not be identified at the time of commitment to the transaction, and accordingly, it may not be possible for the CAO Group to determine whether the counterparty is or is not an Interested Person until the transaction is completed. In the cases where broker(s) are appointed by the CAO Group to source for quotes, the broker will be an independent party with no interest (whether direct or indirect) in the transaction save for the receipt of commission. At the time of commitment to the transaction, the transaction shall only be entered into: (i) in the case of a purchase of Petroleum Products by the CAO Group, at the trader's assessment of the lowest available price quoted on the trading platform for the CAO Group's order at the material time, and (ii) in the case of a sale of Petroleum Products

by the CAO Group, at the trader's assessment of the highest available price quoted on the trading platform for volume of Petroleum Products intended to be sold by the CAO Group at the material time. Each trade confirmation will be forwarded to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the procedures set out in this paragraph 6.2(d) have been complied with.

In respect of any term contract entered into between the Company and BPS which provides for trading collaboration arrangements in respect of the supply of aviation fuel, which has been reviewed by the Audit Committee (instead of two (2) Senior Executives in accordance with paragraph 6.2(a) above) prior to entry, and for which the agreed premiums applicable thereunder were also reviewed by the Audit Committee, the review procedures under this paragraph 6.2 shall not separately apply in respect of any individual transactions conducted subject to and in accordance with the agreed premiums / pricing formulae and other terms under such term contract; and the review procedures under paragraph 6.1 above shall apply in respect of any determination of the premium payable under such term contract, any amendment of the premium or margin under such term contract, and any future extension or renewal of such term contract, to ensure that the same will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

*Ad hoc* supplies of Petroleum Products (other than supply of aviation fuel to the CNAF Group which is covered under paragraph 6.8 of this **Annex II**) will be reviewed in accordance with this paragraph 6.2 of this **Annex II**.

### **6.3 Review procedures for transactions with the Interested Persons involving the trading of Derivative Financial Instruments**

In addition to the credit assessment process undertaken by the CAO Group on all potential parties in relation to Derivative Financial Instruments before accepting that Interested Person as a counterparty, the following review procedure will be applied in respect of the trading of Derivative Financial Instruments between the CAO Group and an Interested Person:

- (a) Prior to entering into any contract or transaction in connection to the trades of Derivative Financial Instruments with any Interested Person, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the price and other associated costs (such as brokerage fees, foreign currency and bank commissions) offered by the Interested Persons against the price and associated costs (such as brokerage fees, foreign currency and bank commissions) of at least one (1) other quotation obtained from unrelated third parties for a Derivative Financial Instrument with similar terms. The CAO Group shall use such comparison as a basis when entering into the contract or transaction with the Interested Person, and such comparisons are to be documented. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.
- (b) Due to the nature of the markets in which the CAO Group operates, involving trading of Derivative Financial Instruments, situations will also commonly occur where a trader acting for the CAO Group may conduct such trades via a voice-based, online or electronic telecommunication-based trading platform where transactions are fast-paced and undertaken in a series of buy or sell prices offered by traders or brokers which are accepted by other traders or brokers participating in the trading platform. In the case of the voice-based trading platform, the CAO Group appoints broker(s) to source for quotes from the market which are then provided to the CAO Group's traders for confirmation. In all these cases, the CAO Group's trader in practice may be required to enter into an almost instantaneous transaction based on his assessment of the best available price then quoted on the trading platform. The counterparty may or may not be identified at the

time of commitment to the transaction, and accordingly, it may not be possible for the CAO Group to determine whether the counterparty is or is not an Interested Person until the transaction is completed. In the cases where broker(s) are appointed by the CAO Group to source for quotes, the broker will be an independent party with no interest (whether direct or indirect) in the transaction save for the receipt of commission. At the time of commitment to the transaction, the transaction shall only be entered into at the trader's assessment of the price quoted on the trading platform for the CAO Group's order which is the most favourable available price to the CAO Group at the material time. Each trade confirmation will be forwarded to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the procedures set out in this paragraph 6.3(b) have been complied with.

#### **6.4 Review procedures for the procurement of into-plane fuelling services from the CNAF Group**

When procuring into-plane fuelling services at any airport from any member of the CNAF Group:

- (a) At least one (1) quotation from an unrelated third party into-plane fuelling services provider at the same airport will be obtained for comparison. Any fees to be paid by member(s) of the CAO Group to such member of the CNAF Group for such into-plane fuelling services shall not be higher than the fee in the quotation from the unrelated third party. In determining the more competitive fee, all pertinent factors, including but not limited to quality, reliability in the provision of such services and track record will be taken into consideration.
- (b) Due to the limited number of into-plane fuelling agents which are authorised to provide into-plane fuelling services at an airport, it is possible for situations to occur where the CAO Group is unable to obtain quotations from unrelated third party service providers, due to commercial or other reasons, or where no unrelated third party service providers are able to meet the CAO Group's service request due to unavailability or lack of capacity. In such a situation, the transaction will be reviewed and approved by any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.
- (c) In the event that no uninterested Senior Executives of the relevant member of the CAO Group are available to review the transaction, the transaction will be reviewed and approved by the Audit Committee directly.

For the avoidance of doubt, as the terms of the Into-Plane Fuelling Services Framework Agreement were reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with paragraph 6.7(b) of the IPT Mandate which was renewed at the 2016 AGM, the review procedures under this paragraph 6.4 shall not separately apply in respect of any individual transactions conducted subject to and in accordance with the pre-agreed rates and terms of the Into-Plane Fuelling Services Framework Agreement. Any subsequent substantive amendments to, or renewal or extension of, the Into-Plane Fuelling Services Framework Agreement, must be subject to prior review and approval by the Audit Committee.

## **6.5 Review procedures for the provision of Services by the BP Group**

When procuring Services to be provided by member(s) of the BP Group, two (2) other quotations from unrelated third party providers of similar services will be obtained for comparison to ensure that such Interested Person Transactions are conducted on normal commercial terms and which are not prejudicial to the interests of the Company and its minority Shareholders. Any fee to be paid by member(s) of the CAO Group for the Services shall not be higher than the most competitive fee of the two (2) other quotations from unrelated third parties. In determining the most competitive fee, all pertinent factors, including but not limited to quality, reliability in delivery and track record will be taken into consideration. In addition, the credit terms obtained from the member(s) of the BP Group shall not be less favourable than those obtained from unrelated third parties.

Where such quotations are not obtainable (for instance, if there are no unrelated third party providers of such similar services), any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the contract or transaction for the provision of Services with member(s) of the BP Group and shall not be involved in the negotiations of the relevant contract or transaction, will determine whether the fees and terms offered by the member(s) of the BP Group are fair and reasonable. In determining whether the fees and terms offered by the member(s) of the BP Group are fair and reasonable, the two (2) Senior Executives involved in the review will have to take into consideration the same pertinent factors as mentioned above.

The entry into any agreement by the Company and/or by any other member(s) of the CAO Group for the provision of Services by member(s) of the BP Group, and any review or amendment of the terms of the provision of Services, will be approved by the Board. As required under Article 102 of the Constitution of the Company, Directors with a direct or indirect personal material interest in the agreement will abstain from voting on the resolution.

## **6.6 Review procedures for Treasury Services**

The following review procedures will be applied in respect of the receipt and provision of Treasury Services between the CAO Group and an Interested Person:

- (a) Prior to entering into any contract or transaction with CNAF Finance in respect of any placement of funds by the CAO Group with CNAF Finance, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee, who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction, shall compare the interest rates for such placements offered by CNAF Finance with the interest rates quoted by at least two (2) other principal bankers of the Company or the relevant member of the CAO Group (as the case may be) for deposits of an equivalent amount and for an equivalent period. The request made to the principal bankers of the Company or the relevant member of the CAO Group (as the case may be) shall also be made by a person who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction. The CAO Group will only place funds with CNAF Finance, if the interest rate quoted by CNAF Finance is higher than the highest of the interest rates quoted by such principal bankers.
- (b) Prior to entering into any contract or transaction with CNAF Finance in respect of any borrowing of funds by the CAO Group from CNAF Finance, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee, who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction, shall compare the interest rates for such borrowings offered by CNAF Finance with the interest rates quoted by at least two (2) other principal bankers of the Company or the relevant member of the CAO Group (as the case may be) for borrowings of an equivalent amount and for an equivalent period. The request made to the principal bankers of the Company

or the relevant member of the CAO Group (as the case may be) for the quote shall also be made by a person who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction. The CAO Group will only borrow funds from CNAF Finance if the interest rate quoted by CNAF Finance is lower than the lowest of the interest rates quoted by such principal bankers.

- (c) Prior to entering into any contract or transaction with any Approved Entity in respect of any provision of loans to the Approved Entity, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the interest rates for such loans charged by the CAO Group with the equivalent lending interest rates quoted by at least two (2) other principal bankers of the Company or the relevant member of the CAO Group (as the case may be). The CAO Group will only provide loans in favour of Approved Entities if the interest rate charged by the CAO Group is higher than the highest rate quoted by such principal bankers. A loan shall only be provided to an Approved Entity which is not also an Investee Company in the form of a “cashflow or credit support” facility, and shall be subject to the following requirements: (i) the terms of the said facility shall expressly restrict the said Approved Entity to use the funds solely for the acquisition of additional goods and services from the CAO Group; and (ii) a credit assessment process has been undertaken to ascertain the creditworthiness of the said Approved Entity before accepting it as a counterparty. The credit assessment process must be undertaken by a person who shall have no interest (whether direct or indirect) in said facility or the acquisition by the said Approved Entity of goods and services from the CAO Group.
- (d) Prior to entering into any contract or transaction with any Investee Company in respect of any grant of guarantees in favour of third parties for the purposes of the Investee Companies, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the fees for the grant of such guarantees charged by the CAO Group with the equivalent fees quoted by at least two (2) other principal bankers of the Company or the relevant member of the CAO Group (as the case may be). The CAO Group will only provide guarantees in favour of third parties for the purposes of the Investee Companies if the fees charged by the CAO Group are higher than the highest rate quoted by such principal bankers.
- (e) Prior to entering into any contract or transaction with CNAF Finance in respect of any provision of Entrust Loan Arrangement Services for the purpose of the provision of loans by the CAO Group to Approved Entities based in the PRC, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the charges for such Entrust Loan Arrangement Services with the equivalent charges quoted by at least two (2) other principal bankers of the Company or the relevant member of the CAO Group (as the case may be). The CAO Group will only engage CNAF Finance for such Entrust Loan Arrangement Services if CNAF Finance’s charges are no higher than the lowest rate quoted by such principal bankers.

In each case above, each submission to the two (2) Senior Executives will be copied to the Company’s head of finance, deputy head of finance, and head of legal, for the Company’s finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company’s legal team to ascertain that the review procedures have been complied with.



## 6.7 Review procedures for other categories of transactions with Interested Persons

In respect of any goods and/or services obtained from or provided to any Interested Person (other than the sale of aviation fuel pursuant to the Supply Agreements, any amendment to, extension or renewal of the Supply Agreements, the provisions of Services by the BP Group, the provision of into-plane fuelling services under the Into-Plane Fuelling Services Framework Agreement, any amendment to, extension or renewal of the Into-Plane Fuelling Services Framework Agreement, the purchase and sale of Petroleum Products and Derivative Financial Instruments, the Treasury Services and the provision of supply chain services pursuant to the Term Charter Party Agreement):

- (a) All contracts entered into or transactions with an Interested Person are to be carried out by obtaining quotations (wherever possible or available) from at least two (2) other unrelated third party suppliers for similar quality services, prior to entry into the transaction with the Interested Person, as a basis for comparison to determine whether the price and terms offered by or to the Interested Person is comparable to those offered by unrelated third parties for the same or substantially similar type of services.
- (b) Where such quotations are not possible, available or commercially feasible to obtain given that there are no unrelated third party suppliers of similar services (for instance, where there is no unrelated third party service provider which will be able to meet the technical and delivery specifications stipulated by CAO's customers) or the commercial sensitivity of the subject matter, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction, will determine whether the price and terms offered by or to the Interested Person are fair and reasonable. In determining whether the price and terms offered by or to the Interested Person are fair and reasonable, factors such as, but not limited to, delivery schedules, quality of advice or training and track record will be taken into account.

As the terms of the Term Charter Party Agreement were reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with paragraph 6.7(b) of the IPT Mandate which was renewed at the 2016 AGM, the review procedures under this paragraph 6.7 shall not separately apply in respect of any individual transactions conducted subject to and in accordance with the terms of the Term Charter Party Agreement.

- 6.8 For the avoidance of doubt, as supply of aviation fuel under the Supply Agreements and *ad hoc* supplies of aviation fuel to the CNAF Group are conducted at the predetermined terms and pricing set out in the Supply Agreements and the premium and margin as determined in accordance with paragraph 6.1 of this **Annex II**, and purchase and supply of aviation fuel under any term contract is conducted at such predetermined terms and pricing and in line with the terms of the said term contract which has been reviewed by the Audit Committee in accordance with paragraph 6.2 of this **Annex II**, such individual supply and purchase transactions are not separately subject to transactional review procedures nor are they taken into account and aggregated together with prior Interested Person Transactions entered into with members of the CNAF Group or the BP Group for a given month for the purposes of determining if the relevant thresholds as set out in the table in paragraph 7 of this **Annex II** have been crossed (and hence not be subject to further review and approval by the Audit Committee prior to the entry into such transactions).

## 7. THRESHOLD LIMITS

7.1 The Audit Committee will review all of the CAO Group's Interested Person Transactions, including transactions covered under the IPT Mandate, on a quarterly basis. Where the value of an Interested Person Transaction with the same group of Interested Persons, namely, BP Group or CNAF Group (when aggregated together with prior Interested Person Transactions entered into for a given month (apart from the last threshold which is computed on a prevailing value basis in a given month as elaborated on in Paragraph 7.2(c)(ii) of this **Annex II**)) exceeds the relevant threshold as set out in the table below, the Interested Person Transaction will be reviewed and approved by the Audit Committee prior to the entry into such transaction.

<b>Transaction Type</b>	<b>Applicable Threshold*</b>
Purchase and Sale of Petroleum Products	US\$560 million if the Average Barrel Price for the immediately preceding month is US\$70 or less
Purchase and Sale of Petroleum Products	US\$680 million if the Average Barrel Price for the immediately preceding month exceeds US\$70
Trading of Derivative Financial Instruments	US\$30 million
Supply Chain Services	US\$7 million for all Supply Chain Services provided other than pursuant to the Term Charter Party Agreement and the Into-Plane Fuelling Services Framework Agreement
Supply Chain Services	US\$48 million for all Supply Chain Services provided pursuant to the Term Charter Party Agreement
Into-plane fuelling services provided by members of the CNAF Group	US\$500,000 for all into-plane fuelling services provided pursuant to the Into-Plane Fuelling Services Framework Agreement
Services provided by members of the BP Group	US\$1 million
Treasury Services	US\$500 million

\* Threshold based on aggregate value of the relevant type of transaction, calculated over a given month (apart from the last threshold which (in relation to Treasury Services involving interest-bearing placement of funds by the CAO Group with CNAF Finance) is computed on a prevailing value basis in a given month as elaborated on in Paragraph 7.2(c)(ii) of this **Annex II**).

7.2 For the purpose of determining whether the above thresholds have been exceeded, the value of a transaction relating to:

- (a) a purchase or sale of Petroleum Products, shall be the aggregate value of the Petroleum Products payable or receivable from the Interested Person, determined as set out in paragraph 7.3 of this **Annex II**;
- (b) a trade in Derivative Financial Instruments, shall be the mark-to-market value of the Derivative Financial Instruments calculated by using the market quoted forward curves published daily by Platts, and/or independent brokers' quotations; and

(c) Treasury Services:

- (i) in the case of Treasury Services other than interest-bearing placement of funds by the CAO Group with CNAF Finance, shall be the gross aggregate value of the Treasury Services received or provided by the CAO Group for each month of the Company's financial year. In line with Rule 909 of the Listing Manual, the value of Treasury Services involving (A) the borrowing of funds from an Interested Person is the interest payable on the borrowing; (B) the lending of funds to an Interested Person is the aggregate of the interest payable and the value of the funds lent or placed; and (C) the provision of guarantees is the aggregate of the value of the obligations guaranteed and the fees payable for such guarantees; and
- (ii) in the case of Treasury Services involving interest-bearing placement of funds by the CAO Group with CNAF Finance, shall be based on the principal amount of funds to be placed with CNAF Finance in that transaction, when added to the prevailing aggregate amount of funds of the CAO Group then on placement with CNAF Finance, taking into account amounts placed with CNAF Finance in the relevant month of the Company's financial year (including both principal and any interest which has been compounded); if the sum of those two amounts exceeds the relevant threshold in paragraph 7.1 of this **Annex II**, that transaction will be subject to review and approval by the Audit Committee prior to the entry into such transaction.

**7.3** For the purposes of paragraph 7.2(a) of this **Annex II**, the aggregate value of the Petroleum Products payable or receivable from the Interested Persons under a transaction is determined by taking the aggregate estimated total price payable under the transaction, based on the volume to be delivered as estimated at the time of entry into the transaction and set out in the contract. The price in turn may be pegged to (a) the forward price quotations obtained from two or more brokers or dealers for the relevant Petroleum Product traded on an OTC basis, (b) the forward price quotation for the relevant Petroleum Product obtained from Platts, or (c) the forward price quotation for the relevant Petroleum Product as published by relevant commodities exchange(s) such as the New York Mercantile Exchange, as at the time of entry into the contract, for delivery in the month of the contracted delivery date or in the preceding month or specified number of months prior to the contracted delivery date, as agreed in the contract, and incorporating any agreed premium or margin as set out in the contract.

## **8. GENERAL REVIEW PROCEDURES**

Apart from the review procedures specific to the relevant transactions above, the following general review procedures will apply to all Interested Person Transactions under the IPT Mandate:

- (a) The finance department of the Company will maintain a register of transactions carried out with the Interested Persons pursuant to the IPT Mandate and the Company's internal audit plan will incorporate a review of all Interested Person Transactions transacted in the relevant FY pursuant to the IPT Mandate. Further, to ensure that all Interested Person Transactions are duly recorded, the finance department shall maintain another list of all Interested Persons to enable it to check the Interested Person Transactions concluded against this list of Interested Persons.
- (b) The Audit Committee shall have overall responsibility for monitoring and approving the Interested Person Transactions and for determining the review procedures, with the authority to delegate such responsibility to individuals within the Company as it deems appropriate.
- (c) If any member of the Audit Committee has an interest in any of the Interested Person Transactions to be reviewed, such member shall abstain from any decision-making in respect of those transactions. The review and approval of those transactions will be undertaken by the remaining members of the Audit Committee.

If, during any reviews by the Audit Committee, it is of the view that the established review procedures are no longer appropriate or are inadequate to ensure that the Interested Person Transactions will not be prejudicial to the interests of the Company and its minority Shareholders or any change of circumstances results in the assumptions underlying its opinion being no longer true, the Company will seek a fresh mandate from Shareholders based on new review procedures. All Interested Person Transactions shall be reviewed and approved by at least one (1) member of the Audit Committee prior to entry pending a fresh mandate to be sought from Shareholders. In the event that a member of the Audit Committee is interested in any such Interested Person Transaction, that member will abstain from reviewing that particular transaction.

## ANNEX III

### LIST OF INTERESTED PERSONS

The list of Interested Persons, with which the CAO Group intends to undertake transactions, as well as the type of transactions to be undertaken pursuant to the IPT Mandate, are as follows:

#### A. BP Group Members

	<b>Entity Name</b>	<b>Nature of Transactions</b>
1	BP Singapore Pte. Limited	— Trading of Petroleum Products and Derivative Financial Instruments — Procurement of Shipping and Logistics Services — Provision of Services
2	BP Middle East LLC	— Trading of Petroleum Products
3	BP Oil International Limited	— Trading of Petroleum Products and Derivative Financial Instruments
4	BP Products North America Inc.	— Trading of Petroleum Products and Derivative Financial Instruments
5	BP Sinopec Marine Fuels Pte Ltd	— Trading of Petroleum Products and Derivative Financial Instruments
6	BP West Coast Products Inc.	— Trading of Petroleum Products and Derivative Financial Instruments
7	BP West Coast Products LLC	— Trading of Petroleum Products and Derivative Financial Instruments
8	Britannic Energy Trading Limited	— Trading of Petroleum Products and Derivative Financial Instruments
9	BP Shipping Limited	— Procurement of Shipping and Logistics Services
10	BP Asia Ltd	— Trading of Petroleum Products
11	Air BP Limited	— Trading of Petroleum Products
12	Shanghai SECCO Petrochemical Company Limited	— Trading of Petroleum Products
13	BP (China) Holdings Limited	— Trading of Petroleum Products and Derivative Financial Instruments

**B. CNAF Group Members**

	<b>Entity Name</b>	<b>Nature of Transactions</b>
1	China National Aviation Fuel Group Corporation (中国航空油料集团公司)	— Trading of Petroleum Products
2	China National Aviation Fuel Corporation Ltd (中国航空油料有限责任公司)	— Trading of Petroleum Products
3	China National Aviation Fuel South China Bluesky Corporation (华南蓝天航空油料有限公司)	— Trading of Petroleum Products
4	China National Aviation Fuel Yantai Corporation (中航油烟台有限公司)	— Trading of Petroleum Products
5	China National Aviation Fuel Nanjing Corporation (南京空港油料有限公司)	— Trading of Petroleum Products
6	China Aviation Oil Import & Export Guangzhou Company Ltd (中航油进出口广州有限责任公司)	— Trading of Petroleum Products
7	China National Aviation Fuel Petroleum Co., Ltd (中国航油集团石油有限公司)	— Trading of Petroleum Products — Provision of Logistics Services
8	China National Aviation Fuel Logistics Co., Ltd (中国航油集团物流有限公司)	— Procurement of Shipping and Logistics Services
9	China National Aviation Fuel Haixin Shipping Corporation (中国航油集团海鑫航运有限公司)	— Procurement of Shipping Services
10	China National Aviation Fuel TSN-PEK Pipeline Transportation Corporation Ltd (中国航油集团津京管道运输有限责任公司)	— Procurement of Logistics Services
11	China Aviation Oil Import & Export Company Limited (中航油进出口有限责任公司)	— Trading of Petroleum Products
12	Shenzhen Cheng Yuan Aviation Oil Company Limited (深圳承远航空油料有限公司)	— Trading of Petroleum Products
13	Shanghai Puhang Oil Co.,Ltd (上海浦航石油有限公司)	— Procurement of Logistics Services

- |    |   |   |   |
|----|---|---|---|
| 14 | Tianjin International Petroleum Storage & Transportation Co., Ltd<br>(天津国际石油储运有限公司) | — | Procurement of Logistics Services   |
| 15 | CNAF Hong Kong Refuelling Limited<br>(中國航油香港供油有限公司)                                 | — | Receipt of Treasury Services<br><br>— Provision of Into-Plane Fuelling Services |
| 16 | China National Aviation Fuel Finance Co., Ltd<br>(中国航油集团财务有限公司)                     | — | Provision of Treasury Services  |

In addition to the Interested Persons listed above, members of the BP Group and the CNAF Group which are nominated by the Interested Persons named above to enter into transactions with the CAO Group, are also deemed to be Interested Persons listed in this **Annex III** with which the CAO Group may transact under the IPT Mandate. Shareholders are also to note that the list of Interested Persons, as well as the type of transactions to be undertaken, may change from time to time as a result of any internal restructurings that the CNAF Group or the BP Group may undertake.

For avoidance of doubt, Shareholders should note that the Company will not seek any separate approval from Shareholders in relation to any such nominated entities or any such addition of new entities to the list of Interested Persons set out in this **Annex III**.

## ANNEX IV

### SUMMARY OF THE TERMS OF THE PIPELINE SERVICES CONTRACT

#### 1. CONTENT OF THE CONTRACT

Under the Pipeline Services Contract, CNAFCL and TSN-PEKCL have agreed that, for a period of 5 years commencing from 1 January 2018, CNAFCL shall engage TSN-PEKCL in relation to the transportation of jet fuel from Tianjin Nanjiang Port to Beijing Airport through the use of the Pipeline. CNAFCL has agreed that it shall, except due to circumstances beyond its control, utilise the entire annual capacity of the Pipeline of approximately 3.3 million tonnes per year for the transportation of jet fuel for the duration of the Pipeline Services Contract.

#### 2. RIGHTS AND OBLIGATIONS OF CNAFCL AND TSN-PEKCL

##### (a) *CNAFCL's Rights*

- (i) During the term of the Pipeline Services Contract, CNAFCL has the right to supervise the completion of all obligations agreed in the Pipeline Services Contract by TSN-PEKCL; and
- (ii) During the term of the Pipeline Services Contract, CNAFCL shall, in the event that TSN-PEKCL contravenes its obligations in the Pipeline Services Contract, be entitled to, through written notice or in any other forms, request that TSN-PEKCL take remedial actions.

##### (b) *CNAFCL's Obligations*

- (i) During the term of the Pipeline Services Contract, CNAFCL shall ensure that it will maintain the right to operate jet fuel supply business;
- (ii) CNAFCL shall engage TSN-PEKCL for the transportation of jet fuel from Tianjin Nanjiang Port to Beijing Airport; and
- (iii) CNAFCL shall utilise the Transportation Capacity of the Pipeline to the maximum extent.

##### (c) *TSN-PEKCL's Rights*

- (i) Save for reasons beyond the control of CNAFCL, TSN-PEKCL shall be entitled to request that CNAFCL engage TSN-PEKCL for the transportation of jet fuel from Tianjin Nanjiang Port to Beijing Airport through the use of the Pipeline during the term of the Pipeline Services Contract, based on the general principle of maximum utilisation of the Transportation Capacity; and
- (ii) During the term of the Pipeline Services Contract, TSN-PEKCL shall be entitled to charge for the jet fuel transportation service.

##### (d) *TSN-PEKCL's Obligations*

- (i) TSN-PEKCL shall, as per the terms and conditions of, and during the term of, the Pipeline Services Contract, warrant that it is the legal owner of the Pipeline, free from any encumbrance, and that there is no degeneration in the quality of the Pipeline;



- (ii) TSN-PEKCL shall warrant and undertake that, during the term of the Pipeline Services Contract, the Pipeline will be able to achieve maximum Transportation Capacity (after deducting 15 days annually for maintenance), and further undertakes to make full utilisation of the Transportation Capacity within the initial 5-year term of the Pipeline Services Contract, save for any reason beyond the control of CNAFCL;
- (iii) During the term of the Pipeline Services Contract, TSN-PEKCL shall be responsible for the daily maintenance, repairing and security surveillance of the Pipeline so as to ensure the smooth operation of the Pipeline. All cost of such maintenance shall be borne by TSN-PEKCL; and
- (iv) During the term of the Pipeline Services Contract, and except for any capital injections into TSN-PEKCL by the Company, TSN-PEKCL shall not, without the express written consent of CNAFCL, sell, alter or dispose of the Pipeline or allow any encumbrance on the Pipeline.

### **3. FORCE MAJEURE**

In the event that any force majeure event (as legally defined by law) occurs which results in either a delay in performance or renders performance impossible, each of CNAFCL or TSN-PEKCL shall bear its own costs.

### **4. BREACH**

CNAFCL and TSN-PEKCL shall fulfil their respective obligations specified in the Pipeline Services Contract fully and properly. In the event of any breach, the non-defaulting party shall be entitled to notify the defaulting party and require the defaulting party to rectify the breach promptly. Should the defaulting party fail to rectify the breach within 15 days of receiving such notice, the defaulting party shall be entitled to compensation for all actual losses suffered due to the breach.

### **5. DISPUTE SETTLEMENT**

The Pipeline Services Contract is governed by, and construed in accordance with, PRC law. Any dispute arising from, or in relation to, the Pipeline Services Contract shall be resolved by CNAFCL and TSN-PEKCL through negotiation. In the event that the dispute cannot be resolved by negotiation, such dispute shall be referred to, and finally resolved by, arbitration in Beijing in accordance with the arbitration rules of China International Economic and Trade Arbitration Commission. The arbitration award shall be final and binding on both parties.

### **6. MISCELLANEOUS**

Upon its expiry, the Pipeline Services Contract shall be automatically renewed for 5 years. However, if there is any change in the laws, regulations or industrial policy of the PRC during the term of the Pipeline Services Contract, and such change will, in the view of both CNAFCL and TSN-PEKCL, have an adverse material effect on the interest of either one or both parties, the terms and conditions of the Pipeline Services Contract may be amended by negotiation and the mutual agreement of both parties.

## ANNEX V

### LETTER FROM THE INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT DIRECTORS (PIPELINE SERVICES CONTRACT)

**CIMB BANK BERHAD (13491-P)**  
**Singapore Branch**  
(Incorporated in Malaysia)

50 Raffles Place #09-01  
Singapore Land Tower  
Singapore 048623

31 March 2017

To: **Independent Directors (Pipeline Services Contract)**  
**China Aviation Oil (Singapore) Corporation Ltd**  
8 Temasek Boulevard  
#31-02 Suntec Tower Three  
Singapore 038988

Dear Sirs,

#### **INDEPENDENT FINANCIAL ADVISER OPINION IN RELATION TO THE PIPELINE SERVICES CONTRACT AND THE METHODS AND PROCEDURES FOR DETERMINING THE PIPELINE TRANSPORTATION PRICES UNDER THE PIPELINE SERVICES CONTRACT**

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*For the purpose of this letter, terms not otherwise defined herein shall have the same meaning given in the letter from China Aviation Oil (Singapore) Corporation Ltd dated 31 March 2017 to its Shareholders (the “Letter”).*

#### **1. INTRODUCTION**

This letter has been prepared for the use by the Independent Directors (Pipeline Services Contract) of China Aviation Oil (Singapore) Corporation Ltd (the “**Company**”) and is to be incorporated into the Letter in connection with the Pipeline Services Contract.

As the Existing Pipeline Services Contract, which was previously approved by Shareholders on 9 January 2009, is due to expire on 1 January 2018, the Company proposes to seek Shareholders’ approval for the provision of pipeline transportation services under the Pipeline Services Contract proposed to be entered into between China National Aviation Fuel Corporation Ltd (“**CNAFCL**”) and China National Aviation Fuel TSN-PEK Pipeline Transportation Corporation Ltd (“**TSN-PEKCL**”) for an initial 5-year term effective 1 January 2018 with automatic renewal for a further 5-year term upon expiry of the initial term, on the terms set out in paragraph 4 of, and Annex IV to, the Letter. Save for the duration<sup>1</sup> of the Pipeline Services Contract, the terms of the Pipeline Services Contract are substantially similar to those of the Existing Pipeline Services Contract.

TSN-PEKCL is a 49%-owned associated company of the Company and an indirect 51%-owned subsidiary of China National Aviation Fuel Group Corporation (“**CNAF**”), and accordingly, an entity at risk for the purposes of Chapter 9 of the Listing Manual of the SGX-ST (the “**Listing Manual**”). CNAFCL is a subsidiary of CNAF and therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual. The Pipeline Services Contract is therefore an interested person transaction under Chapter 9 of the Listing Manual.

<sup>1</sup> The duration of the Existing Pipeline Services Contract is for 10 years starting from 1 January 2008. The duration of the Pipeline Services Contract (if approved) is expected to start from 1 January 2018.

In this regard, CIMB Bank Berhad, Singapore Branch (“**CIMB Bank**”) has been appointed as the independent financial adviser to provide an opinion on whether the Pipeline Services Contract (including the current intended pipeline transportation price of RMB 50 per tonne) is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority Shareholders, and whether the methods and procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders.

This letter sets out, *inter alia*, our opinion and our advice to the Independent Directors (Pipeline Services Contract). It forms part of the Letter issued by the Company.

**To ensure that the advice we wish to put forth by means of this letter is comprehensive and yet remains concise, details contained in the Letter, where necessary or relevant in supporting or elaborating our advice, are not wholly reproduced, but instead, made reference to or summarised throughout the sections of this letter.**

**We recommend that the Independent Directors (Pipeline Services Contract) advise the Shareholders to read this letter carefully.**

## **2. TERMS OF REFERENCE**

We have been appointed as the independent financial adviser to provide an opinion on whether the Pipeline Services Contract (including the current intended pipeline transportation price of RMB 50 per tonne) is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority Shareholders, and whether the methods and procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders.

For the purpose of arriving at our opinion, we have confined our evaluation to the bases set out herein. Our terms of engagement do not require us to conduct, and we have not conducted, any review of the business plan, operations, financial performance and/or financial condition of the Company and its subsidiaries (the “**Group**”). We have not conducted any audit of the implementation of the Pipeline Services Contract and we do not warrant or make any representation as to the actual implementation of the methods or procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract by the Group.

We do not express any opinion on the commercial risks or merits of the Pipeline Services Contract or on the future prospects of the Group. Such evaluation is the responsibility of the Directors although we may draw upon their views (to the extent we deem necessary or appropriate) in arriving at our opinion. We were not involved in the Company’s decision-making process or its deliberations for the Pipeline Services Contract. We do not express any opinion on the merits of the Pipeline Services Contract relative to any alternative transaction.

We have held discussions with the management of the Company and have examined information, both written and verbal, provided to us by the management of the Company. We have not independently verified such information, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of, such information. However, we have made such reasonable enquiries and exercised our judgment as we deemed necessary and have found no reason to doubt the accuracy or reliability of such information.

We have relied upon the assurances of the Directors (including those who may have delegated supervision of the Letter) that they have taken all reasonable care to ensure that the facts stated and opinions expressed in the Letter (except this letter) are fair and accurate in all material respects and that no material facts have been omitted which would make any statement in the Letter misleading in any respect, and that they collectively and individually accept responsibility accordingly.

Our opinion in this letter is based upon market, economic, industry, monetary and other conditions prevailing on, and the information made available to us as at 3 March 2017 (the “**Latest Practicable Date**”). Such conditions may change significantly over a short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date.

In rendering our advice, we have not had regard to the specific investment objectives, financial situation, tax position, risk profiles or particular needs and constraints of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, we would advise that any individual Shareholder who may require specific advice in the context of his specific investment objectives or portfolio consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Our opinion is delivered to the Independent Directors (Pipeline Services Contract) for their deliberation on the Pipeline Services Contract, and the recommendations made by the Independent Directors (Pipeline Services Contract) shall remain solely their responsibility. Our opinion should not be regarded as a recommendation to any Shareholder as to how such Shareholder should vote on the resolutions to be tabled at the AGM or any matter related thereto.

The Company has been separately advised by its own advisers in the preparation of the Letter (other than this letter). We are not involved in and have not provided any advice, financial or otherwise, in the preparation, review and verification of the Letter (other than this letter). Accordingly, we take no responsibility for and express no views, express or implied, on the content of the Letter (other than this letter).

While a copy of this letter may be reproduced in the Letter, neither the Company, the Directors nor the Audit Committee may reproduce, disseminate or refer to this letter or any part thereof for any other purposes (except in relation to the Pipeline Services Contract) at any time and in any manner without the prior written consent of CIMB Bank in each specific case.

Our opinion in respect of the Pipeline Services Contract should be considered in the context of the entirety of this letter and the Letter.

### **3. PIPELINE SERVICES CONTRACT**

Salient information on the terms of the Pipeline Services Contract including the details of the Pipeline Services Contract, the rationale for and benefit of the Pipeline Services Contract and the review procedures for determining the pipeline transportation prices under the Pipeline Services Contract are set out in paragraph 4 of, and Annex IV to, the Letter.

### **4. EVALUATION OF THE PIPELINE SERVICES CONTRACT**

In arriving at our opinion on whether the Pipeline Services Contract (including the current intended pipeline transportation price of RMB 50 per tonne) is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority Shareholders, and whether the methods and procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders, we have given due consideration to, *inter alia*, the following:

- (i) rationale for the Pipeline Services Contract and the benefit of the Pipeline Services Contract to TSN-PEKCL;
- (ii) terms of the Pipeline Services Contract;
- (iii) value of Pipeline Services Contract;

- (iv) review procedures for determining pipeline transportation prices under the Pipeline Services Contract; and
- (v) other relevant considerations.

#### 4.1 Rationale for the Pipeline Services Contract and the Benefit of the Pipeline Services Contract to TSN-PEKCL

The text stating the rationale for the Pipeline Services Contract and the benefit of the Pipeline Services Contract to TSN-PEKCL has been extracted from paragraph 4.4 of the Letter and is set out in *italics* below. Shareholders are advised to read the extract below carefully.

*“The Pipeline Services Contract is effectively a renewal of the Existing Pipeline Services Contract which is expiring on 1 January 2018.*

*The Company believes that it is beneficial to the Company for TSN-PEKCL to continue providing pipeline transportation services to CNAFCL as the Pipeline Services Contract will provide TSN-PEKCL with an assured revenue flow. In particular, TSN-PEKCL’s business will be severely affected should there be a failure to enter into the Pipeline Services Contract given that CNAFCL is currently the sole customer of TSN-PEKCL as well as the sole supplier of jet fuel to Tianjin Nanjiang Port (being a supply point) and Tianjin Airport and Beijing Airport (being termination points). It is therefore unlikely that any other jet fuel supplier will otherwise need to utilise TSN-PEKCL’s pipeline transportation services. In other words, if Shareholders do not approve the proposed Pipeline Services Contract and the provision of pipeline transportation services to CNAFCL thereunder, it is possible that the Pipeline will go unutilised, which would be financially detrimental to the operations of TSN-PEKCL.”*

#### 4.2 Terms of the Pipeline Services Contract

From the terms of the Pipeline Services Contract, set out in paragraph 4 of, and Annex IV to, the Letter, we note the following:

- (a) Save for the duration<sup>2</sup> of the Pipeline Services Contract, the terms of the Pipeline Services Contract are substantially similar to those of the Existing Pipeline Services Contract.
- (b) The Pipeline Services Contract is for a 5-year term effective from 1 January 2018 with automatic renewal for a further 5-year term upon expiry of the initial term. In the event that there are changes in the laws, regulations or industrial policies of the PRC which the parties mutually agree might result in a material adverse impact on either TSN-PEKCL or CNAFCL, both TSN-PEKCL and CNAFCL shall be entitled to re-negotiate the terms of the Pipeline Services Contract.
- (c) Under the Pipeline Services Contract, CNAFCL shall, except due to circumstances beyond its control, utilise the entire annual capacity of the Pipeline of approximately 3.3 million tonnes per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of each 5-year term of the Pipeline Services Contract (the **“Transportation Capacity”**).
- (d) Assuming the Pipeline Services Contract is entered into, TSN-PEKCL shall continue to provide pipeline transportation services to CNAFCL at a pipeline transportation price that is bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, with reference to the pipeline transportation prices prescribed by the National Energy Administration of the PRC. The price for the provision of pipeline transportation services to CNAFCL shall be determined annually. Under the Existing Pipeline Services Contract, pipeline transportation services are charged by TSN-PEKCL to CNAFCL at the rate of RMB 50 for every tonne of jet fuel transported through the Pipeline from Tianjin Nanjiang Port to Beijing Airport.

<sup>2</sup> The duration of the Existing Pipeline Services Contract is for 10 years starting from 1 January 2008. The duration of the Pipeline Services Contract (if approved) is expected to start from 1 January 2018.

The price of RMB 50 is higher than the minimum pipeline transportation prices currently prescribed by the National Energy Administration of the PRC. It is expected that TSN-PEKCL and CNAFCL will continue to set the pipeline transportation price at the existing price of RMB 50 for every tonne of jet fuel to be transported through the Pipeline from Tianjin Nanjiang Port to Beijing Airport and this will be documented in a side letter. Both TSN-PEKCL and CNAFCL have a right to call for the review of the price for the provision of pipeline transportation services to CNAFCL upon the occurrence of any event that, in the view of both CNAFCL and TSN-PEKCL, could materially affect the business of TSN-PEKCL and/or CNAFCL. Any changes in pricing will require the unanimous approval of the board of directors of TSN-PEKCL, which currently comprises two (2) representatives from the Company and three (3) representatives from CNAF Logistics.

- (e) CNAFCL is currently the sole customer of TSN-PEKCL as well as the sole supplier of jet fuel to Tianjin Nanjiang Port (being a supply point) and Tianjin Airport and Beijing Airport (being termination points).

#### **4.3 Value of Pipeline Services Contract**

It is not possible for the Company to realistically calculate the value of the transaction as, assuming the Pipeline Services Contract is entered into, the pipeline transportation price for the provision of pipeline transportation services by TSN-PEKCL to CNAFCL will be subsequently bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, with reference to the pipeline transportation prices prescribed by the National Energy Administration of the PRC.

As set out in paragraph 4.3 of the Letter, for the purposes of illustration only, based on the maximum Transportation Capacity of 3.3 million tonnes per year at an assumed price of RMB 50 per tonne of jet fuel transported through the Pipeline from Tianjin Nanjiang Port to Beijing Airport (being the current intended pipeline transportation price) and the maximum duration of the Pipeline Services Contract of 10 years, the aggregate value of the pipeline transportation services supplied by TSN-PEKCL to CNAFCL will be RMB 1,650,000,000. Based on the Company's forty-nine per cent. (49%) equity interest in TSN-PEKCL, the value of the transaction is RMB 808,500,000.

#### **4.4 Review Procedures for Determining Pipeline Transportation Prices under the Pipeline Services Contract**

The proposed prices for the provision of pipeline transportation services to CNAFCL under the Pipeline Services Contract will be reviewed and approved by members of the Audit Committee who shall have no interest (whether direct or indirect) in the Pipeline Services Contract. In reviewing and determining the future price(s) for the provision of pipeline transportation services under the Pipeline Services Contract, any decision made by the Audit Committee will take into account the following parameters (where applicable):

- (i) Any directives or guidelines relating to pipeline transportation prices prescribed by the National Energy Administration of the PRC (or such other PRC authority having jurisdiction to prescribe such prices). The renewed pricing must not be less than the prices prescribed by the relevant PRC authority.
- (ii) The prices for pipeline transportation services charged by TSN-PEKCL to CNAFCL immediately prior to the review.
- (iii) Comparison of the pipeline transportation prices offered by TSN-PEKCL to CNAFCL and associated costs (such as operating costs and overheads) against the prices and associated costs (such as operating costs and overheads) from a comparable unrelated pipeline transportation business wherever located.
- (iv) Any other factors that the Audit Committee deems relevant in making its decision.

#### 4.5 Other Relevant Consideration

##### 4.5.1 Variation of the Terms of the Proposed Pipeline Services Contract and Reduction in the Pipeline Transportation Price (from RMB 50 Per Tonne) Subject to Chapter 9 of the Listing Manual

Any variation of the terms of the Pipeline Services Contract (which have been outlined in the Letter) and any reduction in the pipeline transportation price under the Pipeline Services Contract (such that it is lower than RMB 50 per tonne, being the current intended pipeline transportation price) will be subject to Chapter 9 of the Listing Manual. The Company may be required to make the appropriate announcements and/or seek Shareholders' approval, where required, in consultation with the SGX-ST.

For the avoidance of doubt, if the Audit Committee decides on a pipeline transportation price that is equal to or above RMB 50 per tonne (being the current intended pipeline transportation price), this will not be subject to Chapter 9 of the Listing Manual.

#### 5. OUR OPINION

In arriving at our opinion on whether the Pipeline Services Contract (including the current intended pipeline transportation price of RMB 50 per tonne) is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority Shareholders, and whether the methods and procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders, we have considered, *inter alia*, the following factors which should be read in the context of the full text of this letter:

- (i) rationale for the Pipeline Services Contract and the benefit of the Pipeline Services Contract to TSN-PEKCL;
- (ii) audited financial statements of TSN-PEKCL for financial years ended 31 December 2013, 31 December 2014 and 31 December 2015;
- (iii) the current intended pipeline transportation price of RMB 50 per tonne is higher than the minimum pipeline transportation prices currently prescribed by the National Energy Administration of the PRC;
- (iv) save for the duration of the Pipeline Services Contract, the terms of the Pipeline Services Contract are substantially similar to those of the Existing Pipeline Services Contract;
- (v) the future price(s) for the provision of pipeline transportation services under the Pipeline Services Contract will be determined by the Audit Committee, which will take into account (where applicable) (a) any directives or guidelines relating to pipeline transportation prices prescribed by the National Energy Administration of the PRC (or such other PRC authority having jurisdiction to prescribe such prices), (b) the prices for pipeline transportation services charged by TSN-PEKCL to CNAFCL immediately prior to the review, (c) comparison of the pipeline transportation prices offered by TSN-PEKCL to CNAFCL and associated costs (such as operating costs and overheads) against the prices and associated costs (such as operating costs and overheads) from a comparable unrelated pipeline transportation business wherever located and (d) any other factors that the Audit Committee deems relevant in making its decision; and
- (vi) any variation of the terms of the Pipeline Services Contract (which have been outlined in the Letter) and any reduction in the pipeline transportation price under the Pipeline Services Contract (such that it is lower than RMB 50 per tonne, being the current intended pipeline transportation price) will be subject to Chapter 9 of the Listing Manual. The Company may be required to make the appropriate announcements and/or seek Shareholders' approval, where required, in consultation with the SGX-ST.

Accordingly, we are of the view that the Pipeline Services Contract (including the current intended pipeline transportation price of RMB 50 per tonne) is on normal commercial terms, and is not prejudicial to the interests of the Company and its minority Shareholders, and the methods and procedures for determining the pipeline transportation prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders.

In rendering the above opinion, we have not taken into consideration the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual Shareholder. Accordingly, any individual Shareholder who may require specific advice in relation to his investment portfolio including his investment in the Shares should consult his stockbroker, bank manager, solicitor, accountant, tax adviser, or other professional adviser immediately.

The opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully  
For and on behalf of  
**CIMB BANK BERHAD, SINGAPORE BRANCH**

JASON CHIAN  
MANAGING DIRECTOR  
INVESTMENT BANKING, SINGAPORE

ERIC WONG  
DIRECTOR  
INVESTMENT BANKING, SINGAPORE