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

Bloomberg & Dow Jones News - 21st January 2002

23/01/02

Management of CAO would like to respond to enquiries regarding Bloomberg & Dow Jones News on *"China now allows private companies with petroleum infrastructure such as oil storage facilities and ports to import crude and oil products, according to China's Ministry of Foreign Trade Economic Cooperation, or Moftec."*

The management of CAO did not receive any notice from its parent company, CAOSC or CAAC regarding allowing other companies other than CAO to import jet fuel directly to airlines flying to China. The news from Dow Jones & Bloomberg made reference to crude oil and other oil products, not jet fuel

In management's opinion, the monopoly is likely to remain intact because current jet fuel consumption in China is still relatively low compared to USA. China's current jet fuel consumption only represents 6% that of USA. Clearly if the monopoly is dissolved this may lead to price increase in jet fuel because of potential losses of economies of scale in purchases of jet fuel for the China market. Moreover, having multiple service providers may compromise on the quality of the jet fuel provided and this may have potential ramifications on aircraft safety.

The jet fuel import market has been opened for international tenders long ago before China's entry into WTO. In fact, CAO progressively increased its market share and dominance from 2% of import jet fuel in 1997, 84% in 1998, 90% in 1999, 98% in 2000 to 99% in 2001. It is a clear reflection of the competitive advantages CAO has built up over the past 4 years in the market driven procurement process and is well ahead of international competition.

China has embarked on a consolidation and formation of alliances among domestic airlines, including further optimization of jet fuel resources, to enhance the competitiveness of domestic companies ahead of international players after WTO.

Based on our understanding CAO's status as the sole jet fuel procurement arm for CAOSC, our parent company in China, will remain unchanged in the short-term. China's opening-up of imports on crude oil and other oil products may offer greater business opportunities for CAO. In fact, by leveraging on the Sino investment background and network, CAO has already acquired the resources and know-how for the procurement of crude oil and other oil products. With the market further opening-up, CAO is well positioned to benefit from the procurement of these oil products in 2002.

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Managing Director
China Aviation Oil (Singapore) Corporation Ltd