



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

China Aviation Oil - Acquisition Of The Entire Issued And Paid-Up Capital Of Fortune Aviation Holding Ltd

05/02/04

Singapore, 5 February 2004 - The Board of Directors of China Aviation Oil (Singapore) Corporation Ltd ("**CAO**" or the "**Company**") wishes to announce that the Company has agreed to acquire a 24.5% stake in South China Bluesky Aviation Oil Co Ltd ("**Bluesky**"). CAO entered into an agreement (the "**Acquisition Agreement**") dated 20 January 2004 with Fortune Oil PRC Holdings Limited (the "**Seller**") to acquire (the "**Acquisition**") from the Seller 10,000 ordinary shares of HK\$1.00 each in the capital of Fortune Aviation Holding Limited ("**Fortune Aviation**"), being the entire issued and paid-up share capital of Fortune Aviation. Fortune Oil PRC Holdings Limited is a wholly-owned subsidiary of Fortune Oil plc of the UK. Fortune Aviation holds the 24.5% stake in Bluesky.

Terms of the Acquisition

Completion of the Acquisition is to take place 7 business days after all the conditions precedent to the Acquisition Agreement have been fulfilled (or if not fulfilled, waived by CAO).

The parties have also agreed that all inter-company balances between Fortune Aviation and the Fortune Oil group are to be settled prior to or at Completion.

Consideration

The aggregate consideration for the Acquisition is RMB441 million, or S\$91.88 million based on an exchange rate of RMB4.80 = S\$1.00. The consideration is to be satisfied by:

- (a) a cash payment by CAO to the Seller of the sum of US\$21.7 million (being the equivalent of approximately RMB180 million at the exchange rate of US\$1.00 = RMB8.28);
- (b) the issue and allotment 37.76 million new shares (the "**Consideration Shares**") in CAO at an issue price of S\$1.33 per share; and
- (c) the grant of an option by CAO to the Seller for an option to subscribe for 26 million new shares (the "**Option Shares**") in CAO at a subscription price of S\$1.60 per share, exercisable at any time during the period of 18 months from the date of grant of such option.

The issue price for the Consideration Shares represents a premium of 4.72% to weighted average price per CAO share of S\$1.27 as at 19 January 2004, being the market day immediately before the date of the Acquisition Agreement.

The Consideration Shares will be issued free from all liens, equities, charges, encumbrances, rights of pre-emption and any other third party rights or interests of any nature whatsoever and shall rank *pari passu* in all respects with and carry all rights similar to the ordinary shares of CAO as at the date (the "**Completion Date**") of completion of the Acquisition, except that they shall not rank for any rights, dividends, entitlements or other distributions the books closure date for which falls on or before the Completion Date.

The exercise price for the Option Shares represents a premium of 25.98% over the weighted average price per CAO share of S\$1.27 as at 19 January 2004.

The consideration was arrived at on a willing buyer-willing seller basis, taking into account, *inter alia*, the projected income and prospects of Bluesky.

Information on Fortune Aviation

Fortune Aviation is a company incorporated in Hong Kong SAR and is in the business of investment holding. Its principal asset is the 24.5% stake in Bluesky. Based on the audited accounts of Fortune Aviation for the financial year ended 31 December 2002 (being the latest publicly available information on Fortune Aviation), the net asset value of Fortune Aviation as at 31 December 2002 was S\$43.29 million. The net profits of Fortune Aviation for the year ended 31 December 2002 were S\$4.22 million.

Information on Bluesky

Bluesky owns all of the jet fuel supply infrastructure in the 15 airports in Central and Southern China, and is the sole jet fuel supplier to all domestic Chinese and foreign airlines in that region. Among these airports are those in the five provincial capitals, i.e., Guangzhou in Guangdong province, Nanning in Guangxi Autonomous Region, Wuhan in Hubei province, Changsha in Hunan province, and Zhengzhou in Henan province. In addition, Bluesky serves the four tourism airports of Guilin and Beihai in Guangxi Province, Zhangjiajie in Hunan Province, and Yichang in the Three Gorges area of Hubei Province.

The other shareholders of Bluesky are CAO's parent company China Aviation Oil Holding Company Ltd and British Petroleum ("**BP**") which hold 51.00% and 24.50% of the issued share capital of Bluesky respectively.

Upon completion of the Acquisition, CAO will be entitled to appoint 2 directors to the board of directors of Bluesky. CAO also intends to assign a deputy general manager and other executives to Bluesky after completion of the Acquisition.

Conditions Precedent

Completion of the Acquisition is conditional upon, *inter alia*, the following:

- (a) the approval of the Seller's shareholders;
- (b) the approvals of the respective boards of directors of CAO and the Seller; and
- (c) all other necessary consents (including third party and governmental or regulatory consents) that are necessary for the Acquisition.

As at the date of this announcement, the Acquisition has been approved by the respective boards of directors of CAO and the Seller.

Unless specifically waived by CAO, if any of the conditions precedent shall not be fulfilled within 90 days from the date of the Acquisition Agreement (or such other date as the parties shall mutually agree in writing), the provisions of the Acquisition Agreement (other than certain obligations relating to, *inter alia*, confidentiality) shall *ipso facto* cease and determine and none of the parties shall have any claim against the other for costs, damages, compensation or otherwise save in respect of any antecedent breach of the Acquisition Agreement.

Rationale for the Acquisition

The Acquisition represents an opportunity for CAO to enhance its earnings and presence in the People's Republic of China ("**PRC**") and more importantly, to create significant synergies with its businesses in particular strategic investments, jet fuel procurement and international oil trading businesses.

As at the date of this announcement, CAO owns a 33% stake in the Aviation Oil Company (the "**Pudong Associate**") which operates at Shanghai Pudong Airport and an 80% stake in the Shuidong oil storage tank farm (the "**Shuidong**")

Subsidiary") located adjacent to the Maoming refinery which is PRC's second-largest refining facility. As at the date of this announcement, Bluesky owns the entire infrastructure for the supply of jet fuel in the 15 airports located in Central and Southern China. The Acquisition will facilitate tie-ups of the Pudong Associate's and the Shuidong Subsidiary's infrastructure with Bluesky's infrastructure, thereby resulting in a more comprehensive and enhanced network in the supply of jet fuel and expanding CAO's presence in the Chinese market.

The Acquisition will also allow CAO to capitalise on the opportunity to utilise Bluesky's surplus tank capacity and network to expand its international oil trading business in Southern China. Southern China is one of the fastest-growing regions in PRC. Further, the aviation industry in Southern China is also expected to enjoy significant growth as major airlines plan to expand their flights into and out of Guangzhou, in conjunction with the opening of the new Guangzhou Baiyun International Airport, which will become China's largest airport measured by throughput capacity.

Financial Effects of the Acquisition

For illustrative purposes only, the financial effects of the Acquisition on the net asset value and earnings per share of CAO, based on the audited consolidated financial statements of CAO and Fortune Aviation for the financial year ended 31 December 2002 are as follows. The financial effects stated below are neither indicative of the actual financial effects of the Acquisition on net asset value and earnings per share of CAO, nor are they indicative of the financial performance of CAO, Fortune Aviation and Bluesky for the year ending 31 December 2004.

Net Asset Value

Assuming the Acquisition was completed on 31 December 2002, the financial effects of the Acquisition on the net asset value of CAO would have been as follows:

Net asset value of CAO	:	S\$176,732,000
Net asset value of Fortune Aviation	:	S\$43,291,000
No. of issued shares ¹	:	691,200,000
No. of Consideration Shares	:	37,760,000
No. of Option Shares	:	26,000,000
Net asset value per share before Acquisition	:	25.57 cents
Net asset value per share after Acquisition ²	:	30.18 cents
Net asset value per share after Acquisition ³	:	34.65 cents

Notes:

1. Number of issued shares as at 19 January 2004, being the market day prior to the date of the Acquisition Agreement.
2. Assuming the option in respect of the Option Shares was not exercised and no Option Shares were issued.
3. Assuming the option in respect of the Option Shares was exercised and the Option Shares were issued on 31 December 2002.

The increase in net asset value per share after the Acquisition and issue of the Option Shares is mainly due to the increase in net asset value of CAO from the receipt of the proceeds in respect of the subscription for the Option Shares.

Earnings per Share

Assuming the Acquisition was completed on 1 January 2002, the financial effects of the Acquisition on the net profits of CAO would have been as follows:

Net profits of CAO	:	S\$48,224,000
Net profits of Fortune Aviation	:	S\$4,217,000
No. of issued shares ¹	:	691,200,000
No. of Consideration Shares	:	37,760,000
No. of Option Shares	:	26,000,000
Earnings per share before Acquisition	:	6.98 cents
Earnings per share after Acquisition ²	:	7.19 cents
Earnings per share after Acquisition ³	:	6.95 cents

Notes:

1. Number of issued shares as at 19 January 2004, being the market day prior to the date of the Acquisition Agreement.
2. Assuming the option in respect of the Option Shares was not exercised and no Option Shares were issued.
3. Assuming the option in respect of the Option Shares was exercised and the Option Shares were issued on 1 January 2002.

Interests of Directors and Substantial Shareholders in the Acquisition

None of the directors and controlling shareholders of the CAO has any interest, direct or indirect, in the Acquisition.

The Acquisition Agreement does not provide for the appointment of any directors to the board of directors of CAO pursuant to or in connection with the Acquisition.

Relative Figures Computed pursuant to Rule 1006 of the Listing Manual

Rule 1006(a)

The basis of comparison set out in Rule 1006(a) is not applicable as Rule 1006(a) only applies to disposals of assets.

Rule 1006(b)

The audited consolidated net profits of Fortune Aviation of S\$4.22 million for the year ended 31 December 2002 constitutes 8.75% of the audited consolidated net profits of CAO of S\$48.22 million for the year ended 31 December 2002.

Rule 1006(c)

The aggregate value of the consideration of RMB 441 million or S\$91.88 based on an exchange rate of RMB4.80 =

S\$1.00 constitutes 10.47% of CAO's market capitalisation of S\$877.82 million as at 19 January 2004, being the market day immediately prior to the date of the Acquisition Agreement.

Rule 1006(d)

The Consideration Shares, when issued, will constitute 5.46% of the issued share capital of CAO, being 691.20 million shares as at 19 January 2004, being the market day immediately prior to the date of the Acquisition Agreement.

The Option Shares, if issued, will constitute 3.76% of the issued share capital of CAO, being 691.20 million shares as at 19 January 2004, being the market day immediately prior to the date of the Acquisition Agreement.

A copy of the Acquisition Agreement is available for inspection during normal business hours at the registered office of CAO for 3 months from the date of this announcement.

By Order of the Board
Adrian Chang