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

Press Release - China Aviation Oil Acquires Fortune Oil's Stake In The Largest Jet Fuel Company In Central And Southern China

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SINGAPORE, 5 February 2004 - SGX Main Board-listed China Aviation Oil (Singapore) Corporation Ltd ("CAO") today announced that it has purchased a 24.5% stake in South China Bluesky Aviation Oil Co. Ltd ("Bluesky") from Fortune Oil Plc of the UK.

Bluesky is 51%-owned by CAO's sister company, China Aviation Oil Supply Corporation ("CAOSC"); oil major BP holds 24.5%. 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 Autonomous Region, Zhangjiajie in Hunan Province, and Yichang in the Three Gorges area of Hubei Province.

Mr. Chen Jiulin, CAO's Managing Director and CEO, said, "So far, this is the largest investment project we have entered. It will significantly add to our comprehensive network of businesses in China. The acquisition will not only bring us an immediate positive contribution to earnings, but more importantly, this investment will offer significant synergies with our Strategic Investments, International Oil Trading and Jet Fuel Procurement businesses."

Multiple Synergies With Current Operations

With the stake in Bluesky, CAO will directly reap a return on its investment, and enhance the existing imported jet fuel supply to this company. CAO will recognise as associate income 24.5% of Bluesky's profits in the financial year ending 31 December 2004. Moreover, CAO's current volumes of imported jet fuel supplied to Bluesky will increase. CAO gains direct participation in Bluesky's management with the appointment of 2 of 8 directors on the Board and assigning a deputy General Manager and other executives to Bluesky. CAO and its sister company will jointly hold 75.5% of Bluesky's shares outstanding.

In addition, this acquisition can create other synergies, as follows:

Currently CAO has a 33% stake in the Aviation Oil Company at Shanghai Pudong Airport and an 80% stake in the Shuidong oil storage tank farm located adjacent to the Maoming refinery, China's second-largest refining facility. The combination of Bluesky, the Pudong associate and the Shuidong subsidiary creates a comprehensive network, providing significant presence in the Chinese market, and solidifies CAO's growth strategy. For example, Shuidong tank farm can directly supply jet fuel to Bluesky so as to ensure it an uninterrupted and possibly cheaper supply. Meanwhile, Bluesky's direct purchase of jet fuel from Shuidong will increase Shuidong's utilisation rates and CAO's return on the Shuidong investment, thus creating a smooth supply chain and enhancing CAO's value added. The same scenario can be applied among the Pudong, Bluesky and Shuidong operations.

The Bluesky stake expands CAO's presence in southern Southern China, one of the country's fastest-growing regions, giving it presence in more than half of the country and enhanced control of its markets. It also opens up new opportunities for CAO's fuel oil and crude oil trading in the South. According to experts, nationwide oil demand is expected to grow at an average annual rate of 12% over the next two decades. By 2020, total oil demand will reach 450 million metric tonnes a year. Dependence on supply sources outside of China will rise to 60%, compared with 30% currently. Of total imports, 60% will be consumed in southern China. Following the acquisition, CAO will have the further opportunity of using Bluesky's surplus tank capacity and networks to expand its International Oil Trading business in South China.

"Significant Long Term Growth Potential

The new Guangzhou Baiyun International Airport will became China's largest, measured by throughput capacity, with the opening of the first phase in July 2004, as major construction was completed in August 2003. In 2005 the new airport will record its first full year of operations. Longer term, a second phase of construction, slated for 2010 completion, is expected to more than double the size of the terminal complex and, according to media reports, may attract up to 80 million passengers a year.

In that context, international courier company FedEx will relocate its regional hub from the Philippines to Guangzhou following the opening of the new facility, with 21 aircraft using Guangzhou airport services in the first stage. Chinese domestic and international airlines already have plans to add flights: Air France and Lufthansa have plans to fly to Guangzhou, while China Southern Airlines is planning flights to Paris and Frankfurt. These new routes should encourage other airlines to use Guangzhou as a hub, given China Southern's extensive domestic route network, particularly in central and southern China. China Southern Airlines, which has its headquarters and main hub at Guangzhou, is already gearing up for significant growth, with its announced purchase of 21 Airbus A320 aircraft in January and six Hafei Embraer ERJ-145LR aircraft in early February.

This is expected to contribute to the increase in jet fuel consumption and expand Bluesky's business. Together with an increase in international flights at the other provincial capitals' airports (which contribute approximately half of Bluesky's volume), it is anticipated that Bluesky's volumes will rise 25% in 2004 and a further 20% in 2005, with estimated growth of 15-20% each year through 2008.

However, despite such high growth, Bluesky's operating costs should reap efficiencies, for several reasons:

--The five capital and four tourism airports are brand new. There are unlikely to be any large maintenance-related investments in the near term.

--The total headcount has been reduced from over 1,000 in 1998 to 600 currently, as a result of efficiency and productivity initiatives. This has resulted in labour efficiency higher than the average for Chinese airport fuel supply companies.

--As such, unit operating costs in the Bluesky network are lower than the average for Chinese airport fuel supply companies.

It is anticipated that the high growth and low costs at Bluesky will yield a significantly positive impact to CAO even in the first year following its investment.

Attractive Acquisition Terms

The terms of CAO's acquisition are attractive, given the growth potential and synergies. CAO will pay to Fortune Oil PLC cash amounting to US$21.7 million or RMB180 million, will issue to it 37.76 million new shares, or 5.2% of CAO's enlarged shares outstanding, and will issue options to buy 26 million new shares at S$1.60 per share. This transaction involves no debt. Cash on hand is sufficient to meet the cash portion of the purchase, while the issue of shares and options will dilute earnings by less than the amount which the Bluesky stake enhances profitability. The issuance of new shares and options is designed not to increase CAO's gearing and to leave sufficient available funds for CAO's further investment plans. The arrangement also reflects Fortune Oil Holding's great confidence in CAO's potential growth. Barring unforeseen circumstances, there is expected to be a positive impact on CAO's 2004 aggregate earnings and earnings per share as a result of this deal.

Commenting on the agreement, CAO's Chairman, Mr Jia Changbin, added; "The advantages conferred by this deal are many. First, Bluesky is profitable in its own right, and offers opportunities for synergy with our existing businesses. Second, the pricing is attractive and will enhance earnings per share. Third, it may be possible to forge an even closer relationship with BP, currently our only other partner in Bluesky besides our sister company. In combination, these advantages show the good fortune CAO has had in securing such a lucrative opportunity."

By Order of the Board
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