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

Proposed Acquisition Of 33 Per Cent. Equity Interest In ShangHai Pudong International Airport Aviation Fuel Supply Corporation Ltd

23/07/02

1. Introduction

The Directors of China Aviation Oil (Singapore) Corporation Ltd ("CAO" or the "Company") is pleased to announce that the Company has entered into a share transfer agreement dated 23 July 2002 ("Share Transfer Agreement") with China Aviation Oil Supply Corporation ("CAOSC") to acquire CAOSC's 33 per cent. equity interest in Shanghai Pudong International Airport Aviation Fuel Supply Corporation Ltd ("SPIA") (the "Proposed Acquisition").

Under the terms of the Share Transfer Agreement, CAO shall own the 33 per cent. equity interest in SPIA together with all rights and interests, including but not limited to the rights in respect of the net assets of SPIA as at 31 December 2001 and the profits of SPIA made as from 1 January 2002 arising from or in relation to the said 33% equity interest.

2. Information on SPIA

SPIA was established in the People's Republic of China ("PRC") in September 1997 as a joint venture between Shanghai Pudong International Airport Company ("Shanghai Pudong Company") (40%), CAOSC (33%) and China Petroleum and Chemical Sales Company ("Sinopec") (27%), all of which are PRC entities. SPIA's registered office is located at No.1 Jichang Road, Pudong, Shanghai, the PRC.

SPIA is principally engaged in the business of fuel supply. It owns and operates all the refueling facilities at Shanghai Pudong International Airport ("Pudong Airport") and has exclusive right to supply fuel to airlines using the Pudong Airport.

SPIA's key assets include a 42 km pipeline directly connecting Shanghai Wai Gaoqiao port to Pudong Airport, twelve 10,000 m3 storage tanks, 16 fuel pumping trucks and other modern fuel supply facilities and equipment.

SPIA commenced its fuel supply operations in October 1999, coinciding with the official opening of Pudong Airport.

A summary of SPIA's audited financial statements for the 2 financial years ended 31 December 2000 (FY2000) and 31 December 2001 (FY2001), which has been prepared in accordance with International Accounting Standards, is set out below. SPIA experienced its first full year of fuel supply operations in 2000.

Profit and Loss Account

(RMB'000)	**FY2000**	**FY2001**
Turnover	1,289,835	1,769,614
Gross Profit	235,385	378,392
Profit from operating activities	181,986	320,570
Profit before taxes	155,929	289,168
Net profit for the year	131,372	245,577

Balance Sheet

(RMB'000)	**FY2000**	**FY2001**
ASSETS		
Non-current assets		
Property, plant and equipment	364,953	348,312
Construction in progress	10,405	115
Long term investment	100	100
	375,458	348,527
Current Assets	780,027	415,199
TOTAL ASSETS	1,155,485	763,726

EQUITY AND LIABILITIES		
Equity		
Paid-up capital	200,000	200,000
Reserves	104,365	187,206
	304,365	387,206
Non-current Liabilities		
Interest-bearing loans	182,500	-
Deferred tax liability	13,570	1,487
	196,070	1,487
Current Liabilities	655,050	375,033
TOTAL EQUITY AND LIABILITIES	1,155,485	763,726

3.

Purchase Consideration

The aggregate purchase consideration payable to CAOSC under the Share Transfer Agreement is RMB 370 million or approximately S$77.6 million (based on current exchange rate of S$1:RMB 4.77) ("Consideration") and will be satisfied in cash. The Company intends to finance the Proposed Acquisition through internal resources including the proceeds received from its initial public offering in November 2001.

The Consideration was determined at arms-length and on a "willing buyer-willing seller" basis.

Based on the Consideration and SPIA's audited financial statements for FY2001, the price-earnings ratio ("PER") and price-to-net tangible assets ratio ("P/NTA") for SPIA implied in the Consideration are as follows:-

(i) PER of approximately 4.5 times; and
(ii) P/NTA of approximately 2.9 times.

For the purpose of complying with PRC regulations in relation to the Proposed Acquisition, the Company commissioned an independent valuer, TopChina Appraisal, to prepare a valuation report ("Valuation Report") dated 8 May 2002 for the 33% equity stake in SPIA. Based on the Valuation Report which was prepared based on the replacement cost method, the value of the 33 per cent. stake in SPIA was appraised at approximately RMB145.3 million ("Appraised Value"). Hence, the Consideration represents a 154.6% premium over the Appraised Value.

4. Rationale for Proposed Acquisition

The Directors considers jet fuel procurement, international oil trading and oil-related infrastructure investments as the core competencies of the Company and its subsidiaries ("Group").

The Proposed Acquisition offers CAO direct access to end users of domestic and international airlines in Shanghai, which is in line with its infrastructure investment objectives of providing stable returns at acceptable levels of risk.

With the Proposed Acquisition, the Group is taking another step towards its aim of building a global infrastructure for distribution of jet fuel and related oil products. The previously announced strategic investment by the Group in Spain's largest fuel supply company, Compania Logistica de Hidrocarburos, S.A. (the "CLH Acquisition"), in April this year also enhances the Group's access to physical asset infrastructure. The Proposed Acquisition together with the CLH Acquisition will complement the Group's trading activities in jet fuel and other petroleum products, and broaden its earning base significantly.

5.

Conditions Precedent

Pursuant to the Share Transfer Agreement, the Proposed Acquisition is conditional upon, *inter alia*:-

(a) Satisfactory outcome to the legal and financial due diligence exercise being conducted by the Company for the Proposed Acquisition;

(b) The approval of shareholders of the Company ("Shareholders") (other than CAOSC) for the Proposed Acquisition being obtained at an extraordinary general meeting ("EGM") of the Company to be held;

(c) The submission of the Valuation Report to the relevant government department of the PRC for filing;

(d) The transfer of the equity interest in SPIA by CAOSC to the Company being approved by the relevant government department of the PRC; and

(e) The Share Transfer Agreement together with the new joint venture contract to be entered into among the Company, Shanghai Pudong Company and Sinopec (collectively, the "New Parties"), the new articles of association of SPIA to be entered into among the New Parties being approved by the relevant government department of the PRC.

6. Approvals Required

(a) Interested Party Transaction

As the Proposed Acquisition involves the purchase by the Company of assets from CAOSC which has a 75 per cent. interest in the shares of the Company, the Proposed Acquisition constitutes a transaction with an interested person under Chapter 9 of the Singapore Exchange Securities Trading Limited ("SGX-ST) Listing Manual ("Listing Manual").

(b) Major Transaction

The Proposed Acquisition constitutes a major transaction under Chapter 10 of the Listing Manual as the Consideration exceeds 20 per cent. of the Company's market capitalisation of approximately S$ 342.7 million as at the date of this announcement.

Accordingly, the Company will seek the approval of Shareholders at the EGM to be convened to consider and approve the Proposed Acquisition. CAOSC shall abstain and undertake that its associates (as defined in the Listing Manual) will abstain from voting in respect of their shareholdings in CAO at the EGM .

7.

Financial Effects

Assuming that the CLH Acquisition and the Proposed Acquisition proceed to completion, the proforma financial effects of the CLH Acquisition and the Proposed Acquisition on the share capital, earnings and NTA of the Company are set out below.

<u>Share Capital</u>

The Proposed Acquisition will not have any impact on the issued and paid-up share capital of the Company.

<u>Earnings</u>

Assuming that the CLH Acquisition and the Proposed Acquisition had been completed on 1 January 2001 and based on the Group's audited consolidated financial statements for the financial year ended 31 December 2001, the proforma financial effects on the consolidated earnings of the Group are as follows:-

	Before the CLH Acquisition and the Proposed Acquisition	After the CLH Acquisition but before the Proposed Acquisition	After the CLH Acquisition and the Proposed Acquisition
Profit after tax and minority interest (S$'000)	40,550	48,743	64,380
Earnings per share (cents)	9.13	10.98	14.50

<u>NTA</u>

Assuming that the CLH Acquisition and the Proposed Acquisition had been completed on 31 December 2001 and based on the Group's audited consolidated financial statements for the financial year ended 31 December 2001, the proforma financial effects on the consolidated NTA of the Group are as follows:-

As at 31 December 2001	Before the CLH Acquisition and the Proposed Acquisition	After the CLH Acquisition but before the Proposed Acquisition	After the CLH Acquisition and the Proposed Acquisition
NTA (S$'000)	146,698	146,698	97,652
NTA per share (cents)	25.47	25.47	16.95

<u>Gearing</u>

Assuming that the CLH Acquisition and the Proposed Acquisition had been completed on 31 December 2001 and based on the Group's audited consolidated financial statements for the financial year ended 31 December 2001, the proforma financial effects on the consolidated gearing of the Group are as follows:-

	Before the CLH Acquisition and the Proposed Acquisition	After the CLH Acquisition but before the Proposed Acquisition	After the CLH Acquisition and the Proposed Acquisition

Fixed deposits, cash and bank balances (S$'000)	139,970	94,204	16,636
Total borrowings (S$'000)	52,363	115,363	115,363
Shareholders' funds (S$'000)	146,698	146,698	146,698
Gearing - Gross (times)	0.36	0.79	0.79
Gearing - Net (times)	Net Cash	0.14	0.67

8. Interest of Directors and Substantial Shareholders

CAOSC is the vendor in the Proposed Acquisition. By virtue of its 75 per cent. shareholding interest in the Company, CAOSC is deemed an Interested Person (as defined in Chapter 9 of the Listing Manual). Accordingly, it shall abstain and undertake that its associates (as defined in the Listing Manual) will abstain from voting in respect of their shareholdings in CAO at the EGM to be convened to consider and approve the Proposed Acquisition.

CAOSC is a PRC state-owned enterprise established in accordance with the laws and regulations of the PRC. It is principally engaged in the construction of jet fuel infrastructure, the procurement of jet fuel equipment, the supply of jet fuel to airports in the PRC and the provision of refueling services in the PRC.

The current total for the current financial year ending 31 December 2002 of all transactions with CAOSC or its associates and other Interested Persons (apart from CAOSC or its associates) are as follows:-

Name of Company	FY2002 (S$'000)
with CAOSC or its associates	S$334,080,000
with other Interested Persons	Nil
TOTAL	S$334,080,000

9.

Financial Adviser

The Development Bank of Singapore Ltd has been appointed as financial adviser to CAO for the Proposed Acquisition.

10. Independent Financial Adviser

HL Bank has been appointed to act as the independent financial adviser ("IFA") to advise the independent directors of the Company ("Independent Directors") in connection with the Proposed Acquisition.

11. Statement by Audit Committee

The audit committee of the Company comprising Jerry Lee Kian Eng, Yan Xuetong, Zhang Junru have reviewed the terms of the Proposed Acquisition and subject to the final opinion of the IFA, is of the preliminary view that the terms of the Proposed Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and the minority Shareholders.

12. Additional Information

Additional information and details in connection with the Proposed Acquisition including, *inter alia*, information on SPIA, the advice of HL Bank to the Independent Directors and the Valuation Report, will be made available in the Circular to be despatched to Shareholders in due course.

13. Documents for Inspection

Copies of the following documents are available for inspection at the registered office of the Company at 8 Temasek Boulevard, #31-02 Suntec Tower Three, Singapore 038988 during office hours for 3 months after the date of this announcement:-

(i) the Share Transfer Agreement; and
(ii) the Valuation Report.