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

CAO Announces Largest Investment To Date With 20.6% Stake In Singapore Petroleum Company

18/08/04

*** Deal comprises S$227 million in cash and issue of 208 million CAO warrants at an exercise price of S$1.52 each**
*** Significant potential cross-synergies between SPC and CAO**
*** SPC investment is the launching pad for CAO's new vision of becoming the first overseas Chinese integrated oil company**

SINGAPORE, 18 August 2004 - Singapore Exchange ("**SGX") Main Board-listed China Aviation Oil (Singapore) Corporation Ltd ("CAO")** today announced its latest strategic investment and largest transaction in value to date, and also articulated its new vision of becoming the first overseas Chinese integrated oil company.

CAO will buy 88 million ordinary shares of SGX-listed Singapore Petroleum Company Limited ("SPC"), representing approximately 20.6% of SPC's issued share capital, from Satya Capital Limited ("SCL").

The purchase consideration comprises S$227 million in cash and the issue and allotment of 208 million warrants. These warrants are valid for an exercise period of five years and carry the rights to subscribe for 208 million new CAO ordinary shares, at an exercise price of S$1.52 per share.

The agreement for the acquisition of the 88 million SPC ordinary shares is conditional, amongst other things, upon the approval of the shareholders of CAO. CAO's parent company, China Aviation Oil Holding Company, has given an irrevocable undertaking to vote all of its approximate 75% stake in CAO in favour of the acquisition.

CAO plans to fund the cash portion of the consideration from internal resources and bank borrowings. The number of new CAO shares to be issued upon full exercise of the warrants would represent 17.7% of CAO's enlarged issued capital. This transaction thus increases the liquidity and breadth of ownership of CAO shares.

SPC is a major regional oil and gas company with interests in oil and gas development and production, refining, terminalling and distribution, marketing and trading of the crude and refined petroleum products. SPC's activities are thus spread across upstream, midstream and downstream businesses. A principal investment of SPC is its 50% stake in Singapore Refining Company Private Ltd ("SRC"), a large refinery situated on Jurong Island, with daily capacity of 285,000 barrels of oil per day. Utilisation rates at SRC are currently over 80%.

Commenting on the Group's latest investment deal, its third major deal in 2004, Managing Director and CEO Mr. Chen Jiulin said, "This win-win agreement with SCL is a landmark event for CAO in many aspects. First, this is our largest investment to date in terms of transaction value. It is also a unique opportunity to further strengthen our foothold in the energy sector."

Refining margins have been on the upswing since mid-2003 and now are nearly double the levels of a year ago. It is expected this strong trend will continue for three to five years. The key driver is strong regional demand for oil and oil-related products, especially from China. In the year to date, oil consumption in China has grown 18%, while imports of oil have risen 40%. There is every expectation this strong trend will continue.

In addition, structural changes like new environmental standards should result in a prolonged up-cycle, due to the shutdown of old refineries incapable of meeting these standards without the injection of huge capital expenditure, and the lag-time involved in building new capacity. All this is compounded by the lack of new construction in the past few years, due to the prior cyclical downturn in industry margins. These factors will have positive impact for SPC and thus for CAO.

SPC meets all of CAO's key investment criteria: it is oil-related and may create synergy with CAO's existing businesses; it allows CAO to collaborate with key players in the industry; and based on current estimates of SPC's profitability, the deal should generate substantial profit contribution and other benefits from the first year. The deal is earnings-accretive, and enhances net tangible assets ("NTA"). Assuming full exercise of the warrants, 1H2004 earnings per share ("EPS") would have risen from 3.4 Singapore cents to 4.0 Singapore cents. Under the same assumptions, NTA per share should have risen from 21.61 Singapore cents at 30 June 2004, to 48.43 Singapore cents. Using annualised first-half SPC earnings as a proxy for current-year earnings, the transaction takes place at a price-earnings ratio of 10.1X.

"This is quite a reasonable valuation, especially when CAO's own PER, based on annualised 1H2004 earnings, is 22.2X," said Mr. Chen.

Under the assumption of this annualised figure, a full-year contribution would be more than half the figure CAO recorded for net profit in 2003.

SCL's decision to sell 76.5% of its existing SPC stake to CAO, and particularly to accept CAO warrants as partial consideration, suggests optimism on SCL's part regarding the synergies that may be realised between SPC's existing businesses and management expertise on the one hand, and CAO's strong presence and unique relationships in China on the other.

"Of greatest importance, this strategic stake in SPC is our first step in implementing CAO's third strategic transformation," Mr Chen added. "We see CAO becoming China's first overseas integrated oil group, with upstream-to-downstream oil-related infrastructure and storage facilities, extending across the entire oil supply chain in China as well as in "oil-strategic" regions worldwide. This multinational supply chain will leverage on China's booming oil industry to achieve sustainable high growth at the bottom line and escalate our ongoing creation of shareholder value."

Since it resumed operations in July 1997 after a period of dormancy, CAO has undergone two strategic transformations. The first transition was from ship-broking to oil trading with a focus on jet fuel procurement, culminating in its listing on the SGX Mainboard in December 2001. The second stage was developing a third pillar of growth with strategic investments in oil and oil-related infrastructure and logistic projects, starting with a 33% stake in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd and a 5% stake in Spain's oil transportation and storage leader Compania Logistica de Hidrocarburos S.A.

Looking ahead, CAO's Chairman Mr. Jia Changbin said, "The SPC stake is a feather in the cap for CAO. It will be the first step in CAO's new integrated strategy going forward. In time, perhaps we can propose opportunities for a mutually rewarding alliance, in order to capitalise on burgeoning Chinese demand for oil and imported petroleum products. This demand is barely being met at present, and China's fundamental need for more refinery capacity and overseas oil resources makes SPC an ideal investment opportunity.

"CAO secured a US$160 million credit facility in July 2003 with the express purpose of funding its strategic investments. The Company drew down this facility during the April-June quarter of 2004 in anticipation of this investment. Notably, given our strong cash flows and interest-rate hedging operations, there was hardly any impact," Mr. Jia went on. "Indeed, with maiden contributions coming in the second half of this year from a number of investments - Fortune Oil and Bluesky, the Shuidong tank farm through our subsidiary China Aviation Oil Holding Xinyuan Petroleum Corp, and of course SPC - we anticipate positive cash flow sufficient to cover all borrowing expenses and build cash reserves.

"CAO will of course not be stopping at this project. We have been in negotiations with a prominent global group currently in the midst of realigning its presence in China," Mr. Jia said. "Other investments will follow. All in all, we expect to be able to provide more value to shareholders this year than we have ever done before."

Following the acquisition, SCL's shareholdings in SPC will be reduced from 115.0 million shares to 27 million shares, or a 6.3% stake. The warrant exercise price of S$1.52 represents a premium of 0.6% over the closing share price of CAO of S$1.51 on the market day prior to the date of this release.

By Order of the Board
Adrian Chang
Company Secretary

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