



China Aviation Oil (Singapore) Corporation Limited



SIAS Informal Dialogue on China Aviation Oil Restructuring

12 January 2006



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Part 1

The Debt Restructuring

November 2004 – June 2005



Background 30 November 2004



On 30 November 2004, CAO announced:

- As at 29 November 2004, CAO estimated that losses from speculative oil derivative trading of approximately US\$550 million had been incurred.
- The following measures were also announced by the Company, inter alia:
 - Suspension of the duties of Mr. Chen Jiulin, the Chief Executive Officer of CAO, with immediate effect;
 - Appointment of PWC as special investigative accountant to review and investigate the CAO's affairs in relation to the losses incurred;
 - Appointment of a Special Task Force led by Mdm Gu Yanfei; and
 - The proposed restructuring of the CAO's debt by way of a Scheme of Arrangement with the CAO's creditors.



Background Role of Special Task Force



The Board of Directors, with the support of CAOHC, appointed a Special Task Force, whose role is as follows:

- 1. To lead the day-to-day operations of CAO on its behalf**
- 2. To lead the restructuring and rehabilitation process,**
- 3. To cooperate with the investigations into the CAO's affairs.**



1 Daily Operations



The STF took steps to ensure CAO's assets were protected and value preserved:

- Ensured the cessation of all derivative trading;
- Closed off all open swap and option positions;
- Appointed DTFAS as financial adviser, R&T as legal adviser, and Cogent as PR consultant. Two DTFAS directors appointed joint cheque signatories;
- CAO could not obtain credit lines to support its business and in the month of December it made arrangements to continue the jet fuel business;
 - Established a wholly owned subsidiary, China Aviation Oil Trading Pte Ltd (“CAOT”), on 9 December 2005 to carry on jet fuel procurement;
 - New business arrangements were made for CAOT to operate on an agency basis due to the credit position;
 - To date CAOT has completed six tender exercises, and these have helped to regain the confidence of the market.



2 The Debt restructuring



- **The size and complexity of the task led to many challenges;**
 - **Total liabilities amounting to approx US\$600m.**
 - **100 creditors located in more than 12 countries.**
 - **Creditors initiated or threatened legal action against CAO.**
 - **Many complex issues including legal, financial, cultural differences**
 - **The first restructuring of an overseas listed entity majority owned by a Chinese State Owned Enterprise**



- **The initial scheme was presented in January 2005.**
- **Four months of meetings and negotiations followed during which CAO faced a judicial management petition filed in the High Court of Singapore by SK Energy Asia Pte Ltd.**
- **The final scheme was presented in May and voted on at a creditors meeting on 8 June 2005.**
- **The scheme was overwhelmingly approved by 97% in value and number of creditors.**



2 The Debt restructuring - Scheme of Arrangement

- External creditors total US\$482m
- Repayment by CAO US\$275m
- Haircut US\$207m
- Recovery 57%
- The repayment is made up of:

Upfront cash repayment	US\$130 million
Deferred Debt repayment (over 5 years)	US\$145 million

- Deferred debt to be repaid from sale proceeds of CLH and operational cashflows.
- Shareholders loans amounting to US\$122m to be discounted and converted to equity



3 The Investigations

- On 30 November 2004, CAO appointed PWC as special investigative accountant to review and investigate the Company's affairs relating to the losses incurred.
- Subsequently, on 3 December 2004, the Commercial Affairs Department ("CAD") commenced its investigations into the Company.
- Throughout the investigations, the Company gave both the special investigative accountants and the CAD full assistance whenever required.
- CAO announced PWC's Statement of Phase 1 findings on 29 March 2005 and its final conclusions on 3 June 2005.
- On 9 June 2005, one day after the creditors meeting, the CEO and 3 non-executive directors of CAO together with its Head of Finance were charged in Court and the matters are ongoing.



Part 2

The Equity Restructuring

July 2005 – Feb 2006



The Equity Restructuring

- A critical condition for equity restructuring is procuring new investors
- After five rounds of negotiations, CAOHC and CAO finally concluded investment agreements with BP and Temasek
- In December 2005, CAO announced it had:
 - Secured new Investment of US\$130 million;
 - CAOHC will invest US\$75.77 million for a total stake of 50.88%, including its existing shareholding;
 - BP Investment Asia Ltd (“BP”) will invest US\$44.00 million for a 20% stake; and
 - Aranda Investments Pte Ltd, an indirect subsidiary of Temasek Holdings (Private) Limited will invest US\$10.23 million for a 4.65% stake.
 - Minority shareholders will have an equity stake of 14.47%.
- In January, CAO announced that the Creditors had fully taken up the offer of 10% for US\$22 million of debt consideration.

The Equity Restructuring



- The Post-Restructuring Plan Share Capital Structure will be as follows;

<u>Shareholding</u>	<u>%</u>
■ <i>CAOHC</i>	50.88
■ <i>BP</i>	20.00
■ <i>Temasek</i>	4.65
■ <i>Creditors</i>	10.00
■ <i>Minority shareholders</i>	<u>14.47</u>
■ Total	<u>100.00</u>



Part 3

Operations and governance



Introduction



- **The options losses and the surrounding crisis are a tragedy for all stakeholders.**
- **CAO has met and overcome many obstacles over the last 12 months in order to be here today.**
- **CAO could have easily collapsed and been liquidated.**
- **Many lessons have been learned and CAO will be a stronger company for the experience.**
- **The restructuring does not just end with debt and equity restructuring, operational and governance improvements are on track.**

Operations and governance



- **The equity restructuring was not simply a funds raising exercise.**
- **The non-financial contributions of the Investors were a key criteria for selection.**
- **As a result, CAO entered into other complementary agreements with BP and CAOHC;**
 - **An MOU with BP and CAOHC for the proposed injection of operating assets into CAO with a view to increasing its asset base, earnings capacity and prospects.**
 - **Business Co-operation agreement under which BP Singapore Pte Ltd will provide CAO with trading expertise and risk management assistance and participate in CAO's procurement business.**
- **Strategic investors will enable CAO quickly to rehabilitate, reconstruct and grow at a higher starting point to create long-term, stable and increasing values for shareholders.**

Operations and governance



- Following the release of the PwC report, CAO appointed a Corporate Governance Assessment Committee.
- A majority of the Committee were highly respected and experienced Singaporeans.
- After a comprehensive review of the situation, the Committee reported to the Board in December 2005.
- The recommendations of the Committee have been positive, constructive and provide direction for the future.
- The report will serve as an important tool and reference as CAO seeks to improve its management structure, corporate governance, internal controls, risk management and other areas
- CAO is currently working to propose suggestions on improving internal controls and systems in CAO, and will draft plans on adjusting company management structures and operation procedures with reference to the committee report.
- CAO will refer the recommendations of the Committee to the new Board to be constituted to review and implement.



Further details of the restructuring plan

The Company's financial position



- On 5 December 2005, the Company announced its FY2004 audited financial statements.
- On 8 December 2005, the Company announced its FY2005 first, second and third quarterly unaudited financial statements.
- The pre-restructuring situation as at 30 September 2005:
 - Total Liabilities S\$ 1010 million
 - Net Tangible Liabilities S\$ 669 million
- It has taken 12 months of work to arrive at the present restructuring which will result in the Company greatly reducing its liabilities and having positive net assets.

The Proposed Shareholding Structure



- The Company's present and expected shareholding structure is presented below:

Group Structure	Pre-restructuring	%	Post-restructuring	%
CAOHC	580,608,000	60.00	367,777,427	50.88
Minority shareholders	387,071,992	40.00	104,585,833	14.47
BP	-	-	144,564,119	20.00
Aranda	-	-	33,611,158	4.65
Creditors	-	-	72,282,000	10.00
TOTAL	967,679,992	100.00	722,820,537	100.00

1 CAOHC shares consists of 116.1m existing shares (after consolidation), 2.7m shares arising from debt conversion and 248.9m shares arising from injection of new equity.

2 Minority shareholders shares consist of 77.4m existing shares (after consolidation), 27.2m shares to be distributed from conversion of the CAOHC shareholders' loan.

The Position of Minority Shareholders



- CAO will undergo a 5 to 1 share consolidation before the issuance of the new shares.
- The consolidation will increase the overall value per 1000 shares traded and reduce the corresponding transaction cost relative to the price.
- For each 1000 shares presently held the consolidation will reduce this to 200 shares. However shareholders will then receive an additional 70 shares from CAOHC to end with 270 shares.
- CAO has an odd lot issue.
- To minimize inconvenience to Minority Shareholders, the Company intends to undertake several measures including;
 - setting up of a temporary counter to allow shareholders to trade in board lots of [10] shares.
 - UOB Kay Hian Pte Ltd to be the designated broker to provide a more economical way to dispose of odd lots of shares.
 - UOB will provide a concessionary brokerage of S\$[20] per trade for Odd lots for a period of [1] month
- In addition, shareholders can trade in odd lots of shares on the SGX-ST Unit Share Market.



The Resolutions to vote on at the EGM



- 1. Approve the share consolidation**
- 2. Approve the issue of shares to CAOHC, BP and Temasek for USD130m.**
- 3. Approve the issue of shares to CAOHC, the majority of which will be provided to the minority shareholders.**
- 4. Approve the issue of shares to the creditors for USD22m.**
- 5. Approve appointment of new directors to be named.**
- 6. Approve amendment to the articles**



The Shareholder Scheme



- **CAO will enter into a scheme of arrangement with its shareholders.**
- **The Scheme is intended to implement all of the actions to be taken under the restructuring plan.**
- **The Scheme meeting will be held on the same day as the EGM.**
- **Under the scheme CAOHC will procure CAO to issue shares to the minority shareholders.**
- **Shareholders will as part of the restructuring plan waive all claims against CAO, CAOHC and directors and officers, if any.**



What has been achieved?



- To date, the following has been achieved:
 1. The Company continues in operation.
 2. USD600m of debt has been restructured into a sustainable debt level.
 3. Claims against CAO by Satya Capital, SMBC, SK have been settled.
 4. The Creditors Scheme was approved by the creditors and the High Court.
 5. The judicial management petition was withdrawn on 13 June 2005.
 6. The US shareholders class action suit was dismissed by a US court in November 2005.
 7. On 5 December 2005, CAO secured the participation of new Investors in a US\$130 million equity raising.
 8. Creditors showed their confidence in an over-subscribed offer for 10% of CAO.
 9. Corporate governance and operation changes will be in place to secure the future.
 10. The debt and equity restructuring proposals recreate value for shareholders.