China Aviation Oil (Singapore) Corporation Ltd
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Sharing and Jointly Developing Markets to Achieve Win-Win Business Outcomes -- Speech At First China-US CEO Summit

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Distinguished guests, ladies and gentlemen:

Good morning.

My name is Chen Jiulin, Group Vice President of China Aviation Oil Holding Company ("CAOHC"), as well as Managing Director and CEO of China Aviation Oil (Singapore) Corporation Ltd ("CAO"). It is a great honor to be invited to participate in this first-ever China-US CEO Summit meeting. First of all, on behalf of all Chinese entrepreneurs, may I convey my best wishes and salutations to our counterparts from the United States. With the continuing improvement of Sino-American relations, as well as through increasing two-way investment and expanding cooperative efforts, Chinese and American entrepreneurs need a platform for exchange and interaction, and through which to find business opportunities together. For this reason, this China-US CEO Summit is an important gathering. The title of my speech is "Sharing and Jointly Developing Markets to Achieve Win-win Business Outcomes".

Chinese and American firms enjoy a good basis for collaboration.

The United States is the most developed nation in the world. American enterprises not only possess outstanding advantages with regard to technology, human resources and capital, but have also established unique and advanced management practices and corporate culture. China is the biggest developing nation, with a large market, and rich but inexpensive labor resources. In recent years, the Chinese economy has been growing at rates well above world averages. In this environment, Chinese enterprises have developed their own competitive advantages. Cooperation between Chinese and American firms can certainly complement each other to significant effect.

China welcomes investments by American firms. At the same time, the Chinese entrepreneurs also admire American management concepts, and are willing to cooperate with their American counterparts. As a matter of fact, from the 21st through the 24th of June this year, the globally renowned American business leader Jack Welch, former Chairman and CEO of General Electric, will visit Beijing and Shanghai and give several speeches. The Chinese media report that tens of thousands of Chinese entrepreneurs and businessmen have registered to listen to his speeches, and that tickets been sold out in May. In China, nearly one million copies of the Jack Welch's autobiography have been sold, and it has become a sort of textbook for a number of outstanding Chinese enterprise leaders. Actually I, too, have read this book. This is just one example of how Sino-American economic cooperation enjoys a good social foundation in China. In particular, American corporate management practices and business concepts are well regarded in China.

In the twenty years since China began pursuing reform and its open-door policies, we have seen more and more American businesses investing in China. Statistics suggest that over 39,000 American companies have gained footholds in China, making the United States the largest source of foreign direct investment in China. Between 1980 and October 2003, cumulative investment by American companies reached US$43 billion, of which US$17.3 billion, 40% of the total, was made between January 2000 and October 2003 alone. Most American firms have achieved good returns on their investments in China, and this trend should continue well into the future.

Chinese and American firms may cooperate in many sectors with great potential.

In accordance with the commitments that China made upon joining the WTO, China will further open up a number of sectors to foreign investors. This is also in line with the reform and open-door policies introduced by the Chinese Government. This situation offers a wealth of opportunities for foreign firms to invest in China. Indeed, cooperation between Chinese and American companies is as unlimited in its potential as the open skies.

The year 2004 is a critical time in the reform of China's state-owned enterprises (SOEs). The government encourages foreign investors to participate in restructuring SOEs through joint ventures, partnerships and mergers and acquisitions (M&A). The advantages of large SOEs in China lie in technology, skilled workers, good front-line management, domestic marketing network, relatively new equipment, strong branding, and low labor costs. The participation by American firms in SOE restructuring will effectively integrate and utilize such resources, and optimize experience and cost curves. For example, American technology, skilled workers, domestic marketing channels and branding can be well employed. The manufacturing sector, in particular, has seen many American companies establish alliances with Chinese SOEs, in the form of joint ventures, over many years and generate remarkable returns. Now, by buying into Chinese SOEs, American firms can realize greater gains and achieve better synergies through M&A.

Chinese Premier Wen Jiabao reiterated in his 2004 "Government Work Report" that the Government will continue to strive to develop Western China, to reinvigorate the old industrial base of the Northeast, to grow Central China, and to accelerate the development of Eastern China. As a result, a new strategic layout will be drawn up, featuring uniform development between Eastern and Western China, each balancing the other with its own advantages. Market analysis indicates that sectors attractive for investment purposes in the central and western parts of China may include machinery and equipment, environmental protection, infrastructure, bio-medicine, textiles, and information technology. In the northeast, the focus is on restructuring SOEs. The "hot spots" in the coastal regions center on electronics, IT and logistics. All of these areas offer unlimited business opportunities for American firms.

Exchange and cooperation between Chinese and American firms may take many forms, towards building a more solid platform.

In the past, foreign firms, including American ones, came to China primarily to enter the Chinese market, and investment had been unilateral. At present, China is increasingly a real market economy. The new central leadership of the Chinese Government encourages Chinese companies to participate in international competition, with a view to integrating the Chinese economy with the rest of the world. To date, a large number of outstanding Chinese firms have emerged in the international arena. These firms have accumulated solid capital, and gathered rich experience in international market expansion, strategic growth and cultivating corporate core competencies.

It can be foreseen that the 21st century will open a key chapter for the internationalization of Chinese companies. As such, in my opinion, it may well be an effective venue for Chinese and American firms to cooperate in the form of exchanging access to markets, jointly developing markets or entering new markets altogether.

I am going to illustrate my point by citing the example of my own company, China Aviation Oil (Singapore) Corporation Ltd ("CAO"). CAO is a multinational oil company with a Chinese background. It is listed on the Main Board of the Singapore Exchange, with market capitalization ranking 23rd in Singapore. The parent of CAO is a large state-owned company, China Aviation Oil Holding Corporation ("CAOHC"), which owns jet fuel supply facilities at over 100 civilian airports in China, providing jet fuel supply services to 108 Chinese and foreign airlines. It is the eighth-largest jet fuel supplier in the world. CAO was listed in 2001. This year CAO was included in the Dow Jones Singapore blue-chips index, and soon after, in the FTSE All-World Asia Pacific ex-Japan Index. In mid-March 2004, according to the "Industry Perception Survey" of Asia-Pacific petroleum trading companies, by the US-based Applied Trading Systems Inc., CAO was ranked for a second time as one of the fastest-growing and most-improved players within a niche market.

In recent years, CAO has cooperated effectively with foreign partners to jointly develop markets or enter third-party markets. For instance, after an intensive bidding process, in 2002 CAO acquired a 5% equity interest, with a board seat, in CLH (Compania Logistica de Hidrocarburos), the largest oil facilities and distribution company in Spain. CAO participates in the management of CLH on a par with oil majors such as Shell and BP, which have the same shareholding. Up to now, this investment has brought home millions of US dollars of profits after tax, with a 2003 return of 14.1%. In January 2004, CAO acquired, from the London-listed Fortune Oil Company, all of the outstanding shares of its Hong Kong-based subsidiary in a cash-and-shares deal. These shares give Fortune Oil an 8.7% holding in CAO. Thus both parties have created a win-win outcome on an equal and mutually beneficial basis. In March this year, CAO signed with Emirates National Oil Company ("ENOC"), Memoranda of Understanding, under which CAO and ENOC will invest together in constructing US$220-million oil storage facilities in Singapore. CAO will acquire from ENOC some of its assets in the Middle East to expand CAO's oil business. At the same time, ENOC will venture with CAO to explore oil-storage business opportunities in China. CAO also has extensive cooperative relationship with American firms. For instance, we have collaborated with Chevron Texaco to supply jet fuel to the US West Coast, and fuel oil to China. In the future, CAO is willing to cooperate more extensively in the oil sector to jointly develop the Chinese and international markets.

Finally, to realize these objectives and promote mutual cooperation, I propose that more dialogue between Chinese and American firms should be encouraged, including regular seminars on trade, science and technology, finance, human resources, and management. Government officials, well-known business leaders and scholars can be invited to discuss hot topics and difficult issues regarding collaboration from different perspectives. At the same time, we may expand the scope of talent exchange and dispatch management staff amongst ourselves, so as to better understand each other's society and culture, market environment, laws and regulations, and commercial operating models. It would be a good idea to periodically hold China-US CEO Summit meetings in the future. I believe that due to the improved cooperation, exchanging mutual markets or jointly developing third-party markets, Chinese and American business leaders will create a new era of cooperation between Sino-American companies.

Thank you.