

## **China Aviation Oil (Singapore) Corporation Ltd and its Subsidiary Companies**

### **Auditors' Report to the Members of China Aviation Oil (Singapore) Corporation Ltd**

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We have audited the accompanying financial statements of China Aviation Oil (Singapore) Corporation Ltd ("the Company") and its subsidiary companies (collectively "the Group") set out on pages 8 to 57\* for the year ended 31 December 2005. These financial statements are the responsibility of the Company's Directors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with Singapore Standards on Auditing. Those Standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

#### **CAD investigation**

As explained in Note 2(a), on 29 November 2004, the Company announced it has incurred significant losses from speculative trading in oil derivatives. The significant derivative trading losses and related circumstances had led to an investigation by the Commercial Affairs Department ("CAD"). As at the date of this report, the CAD's investigation has not been completed. The Directors are of the view that the outcome of the investigation would not require adjustments to be made to the financial statements. As at the date of this report, we are unable to conclude whether any adjustments might be required to be made to the financial statements arising from this investigation.

#### **Restructuring Plan and going concern**

As a result of the significant loss of \$865 million incurred by the Group for the year ended 31 December 2004, the Group and Company were in net shareholders' deficit position of \$649 million and \$710 million as at 31 December 2005 respectively. These factors, together with the matters described below, indicate that there is material uncertainty which may cast significant doubt about the ability of the Group and the Company to continue as going concerns.

As explained in Notes 2(b) and 3(a) to the financial statements, on 24 May 2005, the Company announced a proposed scheme of arrangement with its creditors ("Creditors' Scheme") under Section 210 of the Companies Act (Cap. 50) ("Act") to restructure its liabilities with a view to the rehabilitation of the Company as a going concern. The Creditors' Scheme which was approved by the requisite majority of the creditors on 8 June 2005 and sanctioned by the High Court of Singapore on 13 June 2005, will be effective upon certain conditions being met or waived as detailed in Note 2(b) to the financial statements.

On 5 December 2005, the Company announced its debt and equity restructuring plan ("Restructuring Plan") aimed at rehabilitating the Company as a going concern and lifting the suspension of trading of the Company's shares on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The details of the Restructuring Plan are disclosed in Note 2(b) to the financial statements.

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#### **Restructuring Plan and going concern (cont'd)**

In connection with the Restructuring Plan, the Company, on 5 December 2005, entered into :

- a conditional investment agreement (“Investment Agreement”) with China Aviation Oil Holding Company (“CAOHC”) and BP Investment Asia Limited (“BP”), a wholly-owned subsidiary of BP Global Investments Limited, in relation to their proposed investment in the Company; and
- a conditional subscription agreement (“Subscription Agreement”) with CAOHC and Aranda Investments Pte. Ltd. (“Aranda”), an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited, in relation to their proposed investment in the Company.

The completion of the investment by CAOHC, BP and Aranda under the Investment Agreement and Subscription Agreement is dependent on certain conditions being satisfied and/or fulfilled on or prior to completion as detailed in Note 2(b) to the financial statements.

The ability of the Group and the Company to meet its financial obligations and to continue as going concerns depend on the approval of the above-mentioned Restructuring Plan by the Company’s shareholders as well as the Group’s ability to generate sufficient positive cash flows from its operations following the restructuring exercise.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, they may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to reclassify long-term assets and liabilities as current assets and liabilities. No such adjustments have been made to the financial statements.

#### **Impairment assessment**

The auditors of China Aviation Oil Xinyuan Petrochemical Co. Ltd (“CAO Xinyuan”), a subsidiary of the Company, were unable to obtain sufficient financial information they considered necessary for the purpose of ascertaining whether a provision for impairment loss is necessary in respect of the oil storage properties held by CAO Xinyuan. Consequently, we are unable to ascertain the appropriateness of the carrying value of the oil storage properties of \$4,558,000 (see Note 11) in the consolidated balance sheet and the consequent effect on the consolidated profit and loss account for the year ended 31 December 2005. We are also unable to determine the appropriateness of the carrying value of the investment in CAO Xinyuan of \$8,221,000 (see Note 12) held by the Company.

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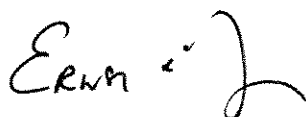
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**Opinion**

Similar uncertainty of the above matters for the year ended 31 December 2004 caused us to qualify our audit opinion on the financial statements relating to that year.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in respect of the matters referred to in the preceding paragraphs :

- (a) the financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of :
  - (i) the state of affairs of the Company and of the Group as at 31 December 2005 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
  - (ii) the other matters required by Section 201 of the Act to be dealt with in the financial statements;
- (b) the accounting and other records required by the Act to be kept by the Company and those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.



ERNST & YOUNG  
Certified Public Accountants

Singapore  
28 February 2006

\* These page numbers are as stated in the Auditors' Report dated 28 February 2006 included in China Aviation Oil (Singapore) Corporation Ltd and its Subsidiary Companies' financial statements for the financial year ended 31 December 2005.