



CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD
("Company")

*(Incorporated in the Republic of Singapore)
Company Registration Number: 199303293Z*

ANNOUNCEMENT
RENEWAL OF THE SHAREHOLDERS' MANDATE
FOR INTERESTED PERSON TRANSACTIONS

Introduction

The directors ("**Directors**") of the Company refer to the Appendix dated 11 April 2006 (the "**Appendix**") to the Notice of Annual General Meeting held on 28 April 2006 in relation to the then proposed renewal of the shareholders' mandate for interested person transactions (the "**IPT Mandate**"). The definitions used in the Appendix shall similarly apply to this Announcement, unless otherwise specified herein.

As mentioned in the Appendix, the Audit Committee of the Directors, having only been recently established on 29 March 2006 following the completion of the restructuring exercise, would review the procedures for the IPT Mandate adopted by the former Audit Committee, and would, if appropriate, announce any revisions or amendments to such review procedures.

By way of background, the relevant interested persons and related transactions to which the IPT Mandate primarily applies are as follows:

- (a) CAOCL Huabei Company., Ltd ("**Huabei**"), a branch company of the subsidiary of CAOHC;
and
- (b) South China Bluesky Aviation Oil Co. Ltd ("**Bluesky**"), also a subsidiary of CAOCL.

A supply agreement in relation to the procurement and supply of aviation fuel by the Company was entered into between the Company and Huabei on 24 March 2006 and Bluesky on 23 March 2006 (collectively, the "**Supply Agreements**") prior to the completion of the restructuring exercise or the establishment of the new Audit Committee. (Please see section 2.1 of the Appendix under "Supply Agreements" for a brief description of these agreements. Further details are set out below.) Both Huabei and Bluesky are interested persons of the Company for the purpose of the IPT Mandate.

Another supply agreement in relation to the procurement and supply of aviation fuel by the Company was entered into by the Company with Shanghai Pudong International Airport Aviation Fuel Supply Co., Ltd ("**SPIA**") on 21 March 2006. SPIA is an associated company of the Company, held by Shanghai Pudong Airport, the Company and Sinopec Gaoqiao Refinery in the proportions of 40%, 33% and 27% respectively. Although described in the Appendix as one of the Supply Agreements, SPIA is not in fact an interested person of the Company for the purpose of the IPT Mandate.

Supply Agreements

Pursuant to the respective Supply Agreements with Huabei and Bluesky (the "**Interested Persons**"), the Interested Persons have appointed the Company on an exclusive basis, for a term of 2 years commencing on the re-listing of the Company, to procure all of their respective imported refined product Jet-A-1 ("**Aviation Fuel**") on a proprietary basis (and not as an agent), and supply the same to the Interested Persons, on and subject to the terms of the Supply Agreements.

The procurement of Aviation Fuel by the Company from its suppliers would generally be conducted through a competitive tender exercise to pre-approved suppliers. The Company may choose from the bids, which conform with the tender requirements the supplier whom the Company considers to be the most favourable, and arrange with the Interested Persons for the supply of the Aviation Fuel to them.

The consideration for the Aviation Fuel supplied by the Company to the Interested Persons pursuant to the Supply Agreements is determined based on (i) the costs of supply of the Aviation Fuel by the Company to the Interested Persons, plus (ii) a fixed agreed rate for each barrel of Aviation Fuel supplied.

Rationale and Benefits

The procurement and supply of Aviation Fuel to the Interested Persons and SPIA is the core business and the key revenue driver of the Company. The volumes and revenue contributions of such supplies for the last 3 financial years ended 31 December 2005 are as follows:

Volume

	FY2003 (barrels)	FY2004 (barrels)	FY2005⁽¹⁾ (barrels)
Huabei	6,097,530	7,346,142	9,192,500
Bluesky	2,173,478	2,393,280	1,724,718
SPIA	6,547,794	10,265,569	13,068,360
Others	371,344	374,052	49,728

Revenue

	FY2003 (US\$ / %)	FY2004 (US\$ / %)	FY2005⁽¹⁾ (US\$⁽²⁾ / %)
Huabei	221,563,522 (41%)	368,779,931 (37%)	5,515,500 (54%)
Bluesky	74,759,110 (14%)	106,195,904 (11%)	472,453 (5%)
SPIA	235,791,430 (43%)	504,122,993 (50%)	4,181,875 (41%)
Others	13,024,526 (2%)	19,226,276 (2%)	19,891 (0%)

Note:

(1) On an agency basis

(2) Commission

As the transactions with the Interested Persons under the Supply Agreements constitute the core business of the Company, the Directors are of the view that the IPT Mandate is in the best interest of the Company to facilitate its conduct of core business.

Review Procedures for the IPT Mandate

Reference is made to the review procedures previously adopted by the former Audit Committee and set out in section 2.5 of the Appendix, as reproduced below:

- (a) when buying services and products from an Interested Person, two other quotations from unrelated third parties will be obtained for comparison, whenever possible. The Senior Officers Meeting or if appointed, the Chief Executive Officer or such equivalent or acting officer of the Company will review these comparables, taking into account all pertinent factors including, but not limited to, price, quality, delivery time and track record, to ensure that the interests of minority Shareholders are not disadvantaged; and
- (b) when selling products to an Interested Person, the price and terms of two other successful sales of similar products to unrelated third parties will be used as comparison, whenever possible. The Senior Officers Meeting or if appointed, the Chief Executive Officer or such

equivalent or acting officer of the Company will review these comparables, taking into account all pertinent factors including, but not limited to, price, quality, delivery time and track record, to ensure that the interests of minority Shareholders are not disadvantaged.

The Audit Committee has since had an opportunity to review the above procedures which were previously adopted by the former Audit Committee. In relation to the buying of services and products from an Interested Person, it is noted that the Company does not buy any services or products from the Interested Persons. In relation to the selling of products to an Interested Person, it is also noted that the Company does not supply Aviation Fuel in any significant amount to parties other than Huabei, Bluesky and SPIA, all of whom are not unrelated third parties. As the Supply Agreements already provide for a fixed margin on a per barrel basis on pre-agreed terms, it is not possible to review the price or terms of such supply.

On the foregoing basis, the Audit Committee is not able to apply the aforesaid review procedures to the transactions with the Interested Persons under the Supply Agreements. The Audit Committee is of the view that it is not meaningful or appropriate to prescribe any procedure to review the transaction prices under the Supply Agreements with the Interested Persons, the basis of determining of which have already been mutually agreed before the establishment of the Audit Committee, and are binding on the parties thereto.

It is further described in section 2.6 of the Appendix that the Audit Committee will review all Interested Person Transactions at least twice a year, to ensure that they have been transacted on normal commercial terms and in accordance with the review procedures outlined above. For the same reasons as stated above, the Audit Committee will not review these transactions in accordance with the review procedures above. In addition, on the basis that the core business of the Company of procurement and supply of Aviation Fuel is transacted only with its related parties, and that the Interested Persons procure all their respective imported Aviation Fuel requirements from only the Company through their respective Supply Agreements, it is not feasible to form a view whether or not the transactions under the Supply Agreements are "on normal commercial terms" since it is not possible to have any basis of comparisons in the circumstances.

Audit Committee's Statement

The Audit Committee is, however, of the opinion that the transactions with the Interested Persons pursuant to their respective Supply Agreements are not prejudicial to the Company and its minority shareholders for the following reasons:

- (a) the Interested Person Transactions contribute to a substantial portion of the revenue of the Company, and in fact, together with the transactions with SPIA, the transactions currently contribute to almost all the revenue of the Company;
- (b) the Company is assured of a fixed margin over its costs of supply of Aviation Fuel to the Interested Persons for its procurement services under the Supply Agreements; and
- (c) the Company is appointed on an exclusive basis for a term of 2 years, and therefore to the extent that the Interested Persons have requirements for imported Aviation Fuel during the term of the agreements, the Company will be their exclusive procurement supplier.

If the above circumstances should materially change such that the foregoing bases are no longer true, the Company will, if necessary, seek a fresh mandate from the shareholders for the Interested Person Transactions.

By Order of the Board of Directors

9 June 2006