

Singapore, 29 September 2004 – CAO's UPDATE ON THE ACQUISITION OF 88,000,000 ORDINARY SHARES OF SINGAPORE PETROLEUM COMPANY LIMITED

1. INTRODUCTION

1.1 **Announcements.** The Board of Directors of China Aviation Oil (Singapore) Corporation Ltd ("**CAO**") refers to:

- (1) the announcement ("**First Announcement**") by CAO dated 18 August 2004 relating to the conditional share purchase agreement dated 18 August 2004 between CAO and Satya Capital Limited ("**SCL**") pursuant to which CAO has agreed to purchase from SCL 88,000,000 ordinary shares of S\$0.50 each (the "**Sale Shares**") in the capital of Singapore Petroleum Company Limited ("**SPC**"), representing approximately 20.60% of the issued share capital of SPC (the "**Proposed Acquisition**"); and
- (2) the announcements by CAO dated 30 August 2004 and 14 September 2004 respectively relating to the supplemental agreements between CAO and SCL dated 26 August 2004 and 13 September 2004 respectively.

1.2 **Amendment.** The Board of Directors of CAO wishes to announce that CAO and SCL have agreed to proceed with the Proposed Acquisition on the basis of the revised terms and conditions as set out in this Announcement. Except as set out in this Announcement, the Proposed Acquisition will proceed on the basis as set out in the First Announcement and the announcements dated 30 August 2004 and 14 September 2004 respectively.

1.3 **Reference.** Unless otherwise stated, all references in this Announcement to the "issued share capital of CAO" are based on the issued ordinary share capital of CAO of S\$48,383,999.60 comprising 967,679,992 ordinary shares of S\$0.05 each in the capital of CAO (the "**CAO Shares**") and the "issued share capital of SPC" are based on the issued ordinary share capital of SPC of S\$213,635,199 comprising 427,270,398 ordinary shares of S\$0.50 each in the capital of SPC (the "**SPC Shares**")¹.

¹ As disclosed in a search conducted at the Accounting and Corporate Regulatory Authority of Singapore on 17 August 2004.

2. AMENDMENT TO SHARE PURCHASE AGREEMENT

2.1 **Purchase Consideration.** Under the terms of the share purchase agreement dated 18 August 2004, the purchase consideration was to be satisfied as follows:

- (a) the payment of an aggregate amount of S\$227,000,000 in cash; and
- (b) the issue and allotment of 208,000,000 warrants ("**Warrants**") carrying the rights to subscribe for 208,000,000 new CAO Shares, at an exercise price of S\$1.52 for each new CAO Share, for a period commencing on and including the date of issue of the Warrants but before the fifth anniversary of such date of issue.

On 27 September 2004, CAO and SCL have agreed that in consideration for SCL waiving its rights in relation to: (i) receiving the Warrants as part of the consideration for the Warrants, and (ii) the condition precedent in relation to SCL executing an agreement with third part(ies) for the disposal of the Warrants on or before 30 September 2004 (or such later date as SCL and CAO may agree) at such price and on such terms and conditions that are acceptable to SCL, CAO will pay S\$135,200,000 to SCL in lieu of the Warrants (the "**Amendment**").

2.2 **Condition Precedent.** Accordingly, the Proposed Acquisition is only conditional upon the approval of the shareholders of CAO at an extraordinary general meeting ("**EGM**") to be convened.

3. RATIONALE FOR THE AMENDMENT

Under the terms of the share purchase agreement dated 18 August 2004, the completion of the Proposed Acquisition was dependent on a number of factors, including SCL executing an agreement with third part(ies) for the disposal of the Warrants. CAO believes that it is in the best interest of CAO to manage and control the process for the issuance of its equity or equity-linked securities (including, warrants). Through the Amendment, CAO would be able to lock in the value of prospective upsides from future potential issuance of equity securities as well as maintaining full flexibility with regard to timing and structure of such issuance. CAO strongly believes that this would greatly enhance and optimise the value and benefits to its shareholders in the longer term.

CAO is also positive on the fundamentals of CAO going forward and is of the view that S\$0.65 paid in lieu of each Warrant which SCL would originally have received under the terms of the original sale and purchase agreement dated 18 August 2004 is reasonable and would be favorable to the shareholders of CAO.

4. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

A summary of the financial effects of the Proposed Acquisition based on the revised purchase consideration are set out in the Appendix to this Announcement.

5. VALUATION

5.1 **Rule 1006.** Based on the audited consolidated financial statements of CAO and its subsidiaries (the "**CAO Group**") for the financial year ended 31 December 2003 and the

audited consolidated financial statements of SPC and its subsidiaries (the “**SPC Group**”) for the financial year ended 31 December 2003, the relative figures for the Proposed Acquisition computed on the bases set out in Rule 1006 of the Listing Manual (“**Listing Manual**”) of Singapore Exchange Securities Trading Limited (“**SGX-ST**”) are set out below:

(a) **Net Profits**

The profits before income tax, minority interests and extraordinary items (the “**net profits**”) attributable to the Sale Shares of approximately S\$14,563,000, compared with the CAO Group’s net profits of approximately S\$67,097,000, is approximately 21.70%. There is no change from the comparison presented in the First Announcement.

(b) **Consideration**

The aggregate value of the consideration for the purchase of the Sale Shares of S\$362,200,000, compared with CAO’s market capitalisation based on the volume-weighted average of the transacted prices of S\$1.6401 per CAO Share on SGX-ST as of 29 September 2004 (the last trading day of the CAO Shares on SGX-ST prior to the date of this Announcement), is approximately 22.8%.

5.2 Based on the unaudited consolidated financial statements of the CAO Group for the six months ended 30 June 2004 and the unaudited consolidated financial statements of the SPC Group for the six months ended 30 June 2004, the net profits attributable to the Sale Shares of approximately S\$16,176,000, compared with the CAO Group’s net profits of approximately S\$38,304,000 is approximately 42.23%. There is no change from the comparison presented in the First Announcement.

5.3 **Rule 1013.** The Proposed Acquisition is a “major” transaction under Rule 1013 of the Listing Manual. Accordingly, the Proposed Acquisition is conditional upon the approval of the shareholders of CAO at the EGM to be convened for the Proposed Acquisition.

5.4 **Sale Shares.** The market value of the Sale Shares is approximately S\$303,400,000 based on the volume-weighted average price of the SPC Shares of S\$3.4881 on the last trading day prior to the date of this Announcement.

6. SUBSTANTIAL SHAREHOLDER’S UNDERTAKING

China Aviation Oil Holding Company (“**CAOHC**”), a controlling substantial shareholder of CAO, has provided an irrevocable undertaking to vote, or procure the voting of, all the CAO Shares in which it has an interest, in favour of the resolution relating to the approval of the Proposed Acquisition on the revised terms and conditions as set out in this Announcement, to be proposed at the EGM.

As at the date of this Announcement, CAOHC has a direct interest in 725,760,000 CAO Shares, representing approximately 75.0% of the issued share capital of CAO.

It is intended that the irrevocable undertaking of CAOHC will terminate on the earlier of:

- (a) the close of the EGM; and
- (b) 28 November 2004 (or such other date as CAO and SCL may agree).

7. DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTEREST

No Director or controlling shareholder of CAO has an interest, direct or indirect, in the Proposed Acquisition.

8. GENERAL

A circular containing further details of the Proposed Acquisition and convening the EGM for the purpose of seeking the approval of shareholders will be despatched to shareholders in due course.

BY ORDER OF THE BOARD

Adrian Chang
Company Secretary

Appendix
Financial Effects

1. Analysis

For illustrative purposes only, set out below is an analysis of the financial effects of the Proposed Acquisition on:

- (1) the earnings per share of CAO;
- (2) the net tangible asset value ("NTA") per share of CAO;
- (3) the net gearing of the CAO Group; and
- (4) the share capital of CAO.

2. Bases and Assumptions

2.1 The analysis has been prepared on the following bases and assumptions:

- (1) based on (a) the audited consolidated financial statements of the CAO Group and the SPC Group, in each case for the financial year ended 31 December 2003 and (b) the unaudited interim results of the CAO Group and the SPC Group, in each case for the six months ended 30 June 2004;
- (2) for the purposes of computing the effect on the NTA per share of CAO and the net gearing of the CAO Group (a) the Proposed Acquisition is assumed to have been completed on 31 December 2003 and 30 June 2004 respectively, and (b) based on the actual number of CAO Shares that are in issue as at 31 December 2003 and 30 June 2004 respectively;
- (3) for the purposes of computing the effect on the earnings per share of CAO, (a) the Proposed Acquisition is assumed to have been completed as at 1 January 2003 and (b) the bonus issue of 276,479,993 new CAO Shares that was announced by CAO on 29 February 2004 had been effected as of 1 January 2003;
- (4) goodwill on the Proposed Acquisition is assumed not to be amortised following the proposed early adoption of FRS 103, which would otherwise have been effective for financial statements covering periods beginning on or after 1 January 2005; and
- (5) the Proposed Acquisition is funded by loans at an interest rate of 2.18%.

2.2 In setting out the analysis below, no account has been taken of and no adjustments have been made in respect of, among other things, the differences in the accounting principles, policies and practices used in the preparation of the financial statements of the CAO Group and the SPC Group. Further, the analyses below has been prepared solely on the basis of publicly available information relating to the SPC Group. Had account been taken of, and adjustments made to reflect, such differences and other information relating to the SPC Group not otherwise publicly available, there can be no assurance that there would be no material differences to the financial effects analyses presented below.

3. Earnings per share of CAO

On the bases and assumptions set out above, the following table illustrates the effects of the Proposed Acquisition on the earnings per share of CAO:

	For the year ended 31 December 2003	After the Proposed Acquisition
Profit after tax (S\$'000)	54,270	60,106
Issued shares ('000)	967,680	967,680
Earnings per share (cents)	5.61	6.21

	For the six months ended 30 June 2004	After the Proposed Acquisition
Profit after tax (S\$'000)	32,932	45,547
Issued shares ('000)	967,680	967,680
Earnings per share (cents)	3.40	4.71

4. NTA per share of CAO

On the bases and assumptions set out above, the following table illustrates the effects of the Proposed Acquisition on the NTA per share of CAO:

	As at 31 December 2003	After the Proposed Acquisition
NTA (S\$'000)	197,615	134,615
Issued shares ('000)	691,200	691,200
NTA per share (cents)	28.59	19.48

	As at 30 June 2004	After the Proposed Acquisition
NTA (S\$'000)	209,148	146,148
Issued shares ('000)	967,680	967,680
NTA per share (cents)	21.61	15.10

5. Gearing of the CAO Group

On the bases and assumptions set out above, the following table illustrates the effect of the Proposed Acquisition on the net gearing of the CAO Group:

	As at 31 December 2003	After the Proposed Acquisition
Net gearing ¹	net cash	1.43

	As at 30 June 2004	After the Proposed Acquisition
Net gearing ¹	net cash	1.37

Note:

¹ “**Net gearing**” means the ratio of net borrowings to shareholders’ funds. “**Net borrowings**” means the aggregate amount of liabilities arising from borrowings from banks and financial institutions, net of cash and fixed deposit balances. “**Shareholders’ funds**” means the amount represented by the aggregate of the issued and paid-up ordinary share capital and reserves.

6. Share Capital of CAO

There is no impact on the share capital of CAO as a result of the Proposed Acquisition.