

CIRCULAR DATED 15 DECEMBER 2008

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, accountant, solicitor or other professional adviser immediately.

If you have sold or transferred all your shares in the capital of CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD (the “**Company**”), you should immediately forward this Circular together with the Notice of Extraordinary General Meeting and the accompanying Proxy Form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Circular.



CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

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

CIRCULAR TO SHAREHOLDERS

in relation to:-

THE PROPOSED ACQUISITION OF 49% OF THE EQUITY CAPITAL OF CHINA NATIONAL AVIATION FUEL TSN-PEK PIPELINE TRANSPORTATION CORPORATION LTD (“TSN-PEKCL”)

**Independent Financial Adviser to Independent Directors of the Company
for the purposes of the Proposed Acquisition**



CIMB-GK SECURITIES PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No: 198701621D)

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form : 7 January 2009 at 3:00 p.m.

Date and time of Extraordinary General Meeting : 9 January 2009 at 3:00 p.m.

Venue of Extraordinary General Meeting : Suntec Singapore International Convention and Exhibition Centre,
Meeting Rooms 208-209,
1 Raffles Boulevard,
Suntec City,
Singapore 039593

THE DIRECTORS OF THE COMPANY WISH TO DRAW THE ATTENTION OF INVESTORS AND SHAREHOLDERS TO PAGES 21 to 23 OF THIS CIRCULAR WHICH HIGHLIGHT CERTAIN MATERIAL RISKS INHERENT IN THE BUSINESS OF TSN-PEKCL. SHAREHOLDERS ARE ADVISED TO TAKE THESE FACTORS INTO CONSIDERATION WHEN DECIDING ON THE PROPOSED ACQUISITION.

This page has been intentionally left blank.

TABLE OF CONTENTS

DEFINITIONS	2
1. INTRODUCTION	6
2. THE PROPOSED ACQUISITION OF 49% OF THE EQUITY CAPITAL OF TSN-PEKCL.	6
2.1 Introduction	6
2.2 Approvals Required	7
2.3 Relative figures computed pursuant to Listing Rule 1006	7
2.4 Interested Person Transaction pursuant to Listing Rule 906	8
2.5 Principal Terms of the Proposed Acquisition	8
2.6 Information on TSN-PEK and TSN-PEKCL	12
2.7 Rationale for and Benefits of the Proposed Acquisition to the Company	13
2.8 Financial Information on TSN-PEK	14
2.9 Commentary on TSN-PEK's Performance	15
2.10 TSN-PEKCL's Outlook FY2009	15
2.11 Illustrative Financial Effects of the Proposed Acquisition	16
3. JOINT VENTURE AGREEMENT	17
3.1 Salient Terms	17
3.2 Rationale for and benefits of the JVA	18
4. PUT OPTION	19
4.1 Grant of Put Option	19
4.2 Rationale for and Benefits of Put Option	19
4.3 Procedure for Exercise of Put Option	19
5. PIPELINE SERVICES CONTRACT	20
5.1 Terms of Pipeline Services Contract	20
5.2 Rationale for and Benefit of the Pipeline Services Contract	20
5.3 Review Procedures for Determining Pipeline Transportation Service Prices	21
5.4 Matters Not Covered Under Mandate Granted By Shareholders	21
6. RISK FACTORS	21
7. CIMB-GK'S ADVICE TO INDEPENDENT DIRECTORS	23
7.1 Appointment of CIMB-GK	23
7.2 IFA's Advice	23
8. STATEMENT OF THE AUDIT COMMITTEE	27
9. DIRECTORS' RECOMMENDATIONS	27
10. EXTRAORDINARY GENERAL MEETING	27
11. ACTION TO BE TAKEN BY SHAREHOLDERS	27
12. SHAREHOLDERS WHO WILL ABSTAIN FROM VOTING	28
13. DIRECTORS' RESPONSIBILITY STATEMENT	28
14. ADDITIONAL INFORMATION	28
APPENDIX I	29
APPENDIX II	30
APPENDIX III	55
NOTICE OF EXTRAORDINARY GENERAL MEETING	57

DEFINITIONS

In this Circular and the Appendices hereto the following definitions apply throughout except where the context otherwise requires or it is otherwise stated:

Companies

<i>“BP Group”</i>	:	BP and its associates (as defined in the Listing Manual) (i.e. its subsidiaries and any corporation in which BP and its subsidiaries, taken together, have an interest in 30% of more of that corporation’s equity capital)
<i>“BP”</i>	:	BP p.l.c.
<i>“BPIA”</i>	:	BP Investments Asia Limited, a subsidiary of BP and a controlling shareholder of the Company
<i>“CAO” or “Company”</i>	:	China Aviation Oil (Singapore) Corporation Ltd
<i>“CAO Group” or “Group”</i>	:	The Company and its subsidiary, CAOT Pte. Ltd.
<i>“CIMB-GK”</i>	:	CIMB-GK Securities Pte. Ltd., the independent financial adviser appointed to advise the Independent Directors on the proposed Acquisition
<i>“CLH”</i>	:	Compañía Logística de Hidrocarburos, CLH, S.A.
<i>“CNAF”</i>	:	China National Aviation Fuel Group Corporation (中国航空油料集团公司), formerly known as China National Aviation Fuel Holding Company, the holding company of the Company
<i>“CNAF Group”</i>	:	CNAF and its associates (as defined in the Listing Manual) (i.e. its subsidiaries and any corporation in which CNAF and its subsidiaries, taken together, have an interest in 30% of more of that corporation’s equity capital)
<i>“CNAFCL”</i>	:	China National Aviation Fuel Corporation Ltd (中国航空油料有限责任公司), a subsidiary of CNAF
<i>“TSN-PEK”</i>	:	China National Aviation Fuel TSN-PEK Pipeline Transportation Centre (中航油津京管道运输中心)
<i>“TSN-PEKCL”</i>	:	China National Aviation Fuel TSN-PEK Pipeline Transportation Corporation Ltd (中国航油集团津京管道运输有限责任公司), successor-in-title to TSN-PEK and a limited liability corporation wholly owned by CNAF

General

<i>“Acquisition”</i>	:	The acquisition by the Company of the Equity Interest as announced by the Company on 23 April 2008
<i>“Agreement”</i>	:	The sale and purchase agreement entered into between the Company and CNAF dated 23 April 2008 in relation to the Acquisition

<i>“Audit Committee”</i>	:	The audit committee of the Company comprising independent directors Mr Ang Swee Tian, Dr Wang Kai Yuen and Mr Liu Fuchun, and non-executive, non-independent directors Mr Zhao Shousen and Mr Timothy Bullock
<i>“Board”</i>	:	The Board of Directors of the Company as at the date of this Circular
<i>“Business Day”</i>	:	A day which is not a Saturday, Sunday or a public holiday in Singapore
<i>“CDP”</i>	:	The Central Depository (Pte) Limited
<i>“CIMB-GK Letters”</i>	:	The letters dated 15 December 2008 from CIMB-GK to the Independent Directors in relation to (a) the proposed Acquisition, and (b) the methods and procedures for determining the transaction prices under the Pipeline Services Contract, as set out in the Appendix II to this Circular
<i>“Companies Act”</i>	:	The Companies Act, Chapter 50 of Singapore, as amended or modified from time to time
<i>“Completion”</i>	:	The completion of the sale and purchase of the Equity Interest pursuant to the Agreement
<i>“Consideration”</i>	:	The purchase consideration for the proposed Acquisition
<i>“Consideration Shares”</i>	:	New Shares to be issued to the Vendors as Consideration for the proposed Acquisition, if the Company and CNAF so elect
<i>“Control”</i>	:	The capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of the Company
<i>“Controlling Shareholder”</i>	:	In relation to a listed company, a person who <ul style="list-style-type: none"> (a) holds directly or indirectly 15% or more of the total number of issued shares in the Company excluding treasury shares. The SGX-ST may determine that a person who satisfies the above is not a Controlling Shareholder; or (b) in fact exercises Control over the Company.
<i>“Director”</i>	:	A director of the Company as at the date of this Circular
<i>“EGM”</i>	:	The Extraordinary General Meeting of the Company to be convened on Friday, 9 January 2009, notice of which is given on page 57 of this Circular
<i>“Encumbrances”</i>	:	Any mortgage, pledge, deed of trust, hypothecation, right of others, claim, security interest, encumbrance, burden, title defect, title retention agreement, lease, sublease, licence, occupancy agreement, easement, covenant, condition, encroachment, voting trust agreement, interest, option, right of first offer, negotiation or refusal, proxy, lien, charge or other restrictions or limitations of any nature whatsoever, including, but not limited to, such encumbrances as may arise under any contract
<i>“Equity Interest”</i>	:	49% of the equity capital in TSN-PEKCL

“FY”	:	Financial year ended or ending 31 December
“Independent Directors”	:	The Directors who are considered independent for the purpose of making a recommendation to Shareholders in relation to the proposed Acquisition, namely, Dr Wang Kai Yuen, Mr Liu Fuchun, Mr Timothy Bullock, Mr Michael Bennetts and Mr Ang Swee Tian
“Independent Shareholders”	:	The Shareholders other than the CNAF in the context of, and having regard to, the proposed Acquisition
“JVA”	:	The joint venture agreement entered into between the Company and CNAF dated 23 April 2008 to regulate the conduct of CNAF and CAO between each other as shareholders of TSN-PEKCL
“Latest Practicable Date”	:	The latest practicable date prior to the printing of this Circular, being 3 December 2008
“Letter of Undertaking”	:	The letter of undertaking dated 14 November 2008 issued by CNAF to CAO in relation to the proposed Acquisition
“Listing Manual”	:	The Listing Manual of the SGX-ST, as amended, modified or supplemented from time to time
“NTA”	:	Net tangible assets
“PRC”	:	The People’s Republic of China
“RMB”	:	Renminbi, the lawful currency of the PRC
“Securities Account”	:	A securities account maintained by a Depositor with CDP but not including a securities sub-account
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Shareholders”	:	The registered holders of Shares, except that where the registered holder is CDP, the term “Shareholders” shall, in relation to those Shares, mean the Depositors whose Securities Accounts are credited with Shares
“Shares”	:	Ordinary shares in the capital of the Company
“Substantial Shareholder”	:	A substantial Shareholder as defined under section 81 of the Companies Act
“Supplemental Agreements”	:	The supplemental agreements both entered into on 21 August 2008 between the Company and CNAF to amend the Agreement and the JVA
“Pipeline Services Contract”	:	The Pipeline Services Contract dated 7 May 2008 entered into between TSN-PEK and CNAFCL
“%”	:	Per centum or percentage
“S\$” and “cents”	:	Singapore dollars and cents, respectively, the lawful currency of the Republic of Singapore
“US\$” and “cents”	:	United States Dollars and cents, respectively, the lawful currency of the United States of America

The terms “Depositor”, “Depository Agent” and “Depository Register” shall have the meanings ascribed to them respectively in section 130A of the Companies Act.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine gender and vice versa. References to persons shall include corporations.

Any reference to a time of day in this Circular shall be a reference to Singapore time unless otherwise stated.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any term defined under the Companies Act or the Listing Manual or any modification thereof and used in this Circular shall, where applicable, have the meaning ascribed to it under the Companies Act or the Listing Manual or such modification thereof, as the case may be, unless otherwise provided.

Unless otherwise specified, any amounts translated from RMB to US\$ in this Circular are translated at the exchange rate of RMB 1,000 = US\$146.03 as at 21 August 2008 whereas any amounts translated from RMB to S\$ in this Circular are translated at the exchange rate of RMB 1,000 = S\$206.60 as at 21 August 2008¹.

¹ Exchange rates are derived from the financial database of the Monetary Authority of Singapore and available at <https://secure.sgs.gov.sg/apps/msbs/exchangeRatesForm.jsp>. Exchange rates taken are as at 12 p.m., 21 August 2008.

LETTER TO SHAREHOLDERS

CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

Board of Directors:

Wang Kai Yuen (Chairman — Non-Executive, Independent)
Sun Li (Deputy Chairman — Non-Executive, Non-Independent)
Meng Fanqiu (Chief Executive Officer, Non-Independent)
Zhang Zhenqi (Executive/General Manager (Trading), Non-Independent)
Ang Swee Tian (Non-Executive, Independent)
Michael Bennetts (Non-Executive, Non-Independent)
Timothy Bullock (Non-Executive, Non-Independent)
Liu Fuchun (Non-Executive, Independent)
Zhao Shousen (Non-Executive, Non-Independent)

Registered Office:

8 Temasek Boulevard
#31-02 Suntec Tower Three
Singapore 038988

15 December 2008

To: The Shareholders of China Aviation Oil (Singapore) Corporation Ltd,

Dear Sir/Madam

1. INTRODUCTION

The Directors are convening an EGM to be held on Friday, 9 January 2009 to seek Shareholders' approval for the proposed acquisition of 49% of the equity capital of TSN-PEKCL from CNAF ("**proposed Acquisition**") and the transactions related thereto (i.e. the JVA, the Put Option and the Pipeline Services Contract, details of which are set out in Sections 3, 4 and 5 respectively).

The purpose of this Circular is to provide Shareholders with the relevant information relating to the proposals to be tabled at the EGM.

2. THE PROPOSED ACQUISITION OF 49% OF THE EQUITY CAPITAL OF TSN-PEKCL

2.1 Introduction

On 23 April 2008, the Directors announced that the Company had entered into the Agreement with CNAF in relation to the Acquisition. TSN-PEKCL's principal asset is a 185 km-long multi-oil product pipeline ("**Pipeline**") running from Tianjin Nanjiang Port to Beijing Capital International Airport ("**Beijing Airport**"). On 16 June 2008, TSN-PEKCL, which is wholly owned by CNAF, was registered as a limited liability company where all assets and liabilities of TSN-PEK were transferred to TSN-PEKCL as TSN-PEK's successor-in-title. On 21 August 2008, the Directors announced that the Company and CNAF have entered into supplemental agreements both dated 21 August 2008 to amend the Agreement and the JVA (collectively, "**Supplemental Agreements**").

Copies of the announcements made by the Company on 23 April 2008 and 21 August 2008 in relation to the proposed Acquisition are available at the SGX-ST's website at www.sgx.com.

2.2 Approvals Required

The approval of the Shareholders (other than CNAF and its associates, who are to abstain from voting) will be required for the proposed Acquisition for the following reason:

The aggregate consideration payable by the Company to CNAF is RMB309,421,810 or approximately US\$45,184,867. The latest audited NTA of the Company as at 31 December 2007 is US\$268.31 million. Based on the above figures, the consideration payable to CNAF by the Company represents approximately 16.84% of the Group's latest audited NTA as at 31 December 2007 and is an Interested Person Transaction that exceeds 5% of the Company's NTA.

To show its support for the proposed Acquisition, BPIA has irrevocably undertaken to the Company to vote in favour of the ordinary resolution to approve the proposed Acquisition and the transactions related thereto as set out in the notice of EGM on page 57 of this Circular ("**Ordinary Resolution**").

2.3 Relative figures computed pursuant to Listing Rule 1006

The relative figures that were computed on the bases set out in Rule 1006 of the Listing Manual are as follows:

2.3.1 Rule 1006(a)

The basis of comparison set out in Rule 1006(a) of the Listing Manual is not applicable as Rule 1006(a) only applies to disposal of assets.

2.3.2 Rule 1006(b)

Based on the audited financial statement of the Group for the year ended 31 December 2007, the net profit for that financial year on a consolidated basis (before income tax, minority interests and extraordinary items) was US\$195.66 million. The net profits (before income tax) of TSN-PEK for the financial year ended 31 December 2007, based on its audited financial statements was approximately RMB70.6 million. Accordingly, the net profits (before income tax) attributable to the Equity Interest for the financial year ended 31 December 2007 would be approximately RMB34.6 million or approximately US\$5,052,638.

Accordingly, the net profit (before income tax) for the financial year ended 31 December 2007 attributable to the Equity Interest being acquired by the Company pursuant to the proposed Acquisition compared to the net profits on a consolidated basis (before income tax, minority interests and extraordinary items) of the Group for the financial year ended 31 December 2007 would be approximately 2.53%.

2.3.3 Rule 1006(c)

The aggregate value of the proposed Acquisition amounts to 4.89% of the Company's market capitalisation of approximately S\$1.267 billion as at 22 April 2008. The market capitalisation of the Company is derived by multiplying the number of Shares in issue of 722,820,537 by the volume weighted average price of the Shares on the date preceding the date of the Agreement.

2.3.4 Rule 1006(d)

The basis of comparison set out in Rule 1006(d) of the Listing Manual is not applicable since the Company and CNAF have agreed that no equity securities shall be issued as Consideration for the proposed Acquisition.

The relative percentages under Rule 1006(b) and Rule 1006 (c) of the Listing Manual do not exceed 20%, thus bringing the proposed Acquisition outside the definition of a “major transaction” for the purposes of Chapter 10 of the Listing Manual.

2.4 Interested Person Transaction pursuant to Listing Rule 906

Under Rule 906 of the Listing Manual, where a listed company proposes to enter into a transaction with an Interested Person, Shareholders’ approval and/or an immediate announcement is required in respect of that transaction if the value of the transaction is equal to or exceeds certain financial thresholds. In particular, Shareholders’ approval is required where the value of such transaction is equal to, or exceeds:

- (a) 5% of the listed company’s latest audited NTA; or
- (b) 5% of the listed company’s latest audited NTA, when aggregated with other transactions entered into with the same interested person during the same financial year.

For the purposes of Chapter 9 of the Listing Manual, the term “interested person” is defined to mean a director, chief executive, or Controlling Shareholder of the listed company or an associate of any such director, chief executive officer or Controlling Shareholder.

As the Company is acquiring the Equity Interest from CNAF and CNAF is a Controlling Shareholder of the Company, the Acquisition is an “interested person transaction” for the purposes of Chapter 9 of the Listing Manual.

The aggregate Consideration payable by the Company to CNAF is RMB309,421,810 or approximately US\$45,184,867. The latest audited NTA of the Company as at 31 December 2007 is US\$268.31 million. Based on the above figures, the consideration payable to CNAF by the Company represents approximately 16.84% of the Group’s latest audited NTA as at 31 December 2007 and is an Interested Person Transaction that exceeds 5% of the Company’s NTA pursuant to Rule 906(a) of the Listing Manual. The proposed Acquisition is therefore subject to the approval of Independent Shareholders.

2.5 Principal Terms of the Proposed Acquisition

The principal terms of the proposed Acquisition are as follows.

2.5.1 Sale and Purchase of Equity Interest

Subject to the terms and conditions of the Agreement (as amended and supplemented by the supplemental agreement to the Agreement), CNAF shall sell as beneficial owner and the Company shall purchase the Equity Interest, free and clear from Encumbrances and together with all rights, dividends, entitlements, benefits and advantages attaching thereto from Completion. Upon Completion, the Company and CNAF agree that the economic rights and beneficial interest in and to the Equity Interest, shall vest in the Company on and from the date of registration of TSN-PEKCL as a Sino-foreign equity joint venture with the Tianjin Municipal Administration of Industry and Commerce.

2.5.2 Consideration

The Consideration is RMB309,421,810 (translated into approximately US\$45,184,867 or S\$63,926,546). Pursuant to the Agreement, the Consideration will be satisfied either (a) in cash; or (b) by the issue and allotment of Consideration Shares to CNAF; or (c) by a combination of cash and the issue and allotment of Consideration Shares to CNAF.

Pursuant to the Supplemental Agreement to the Agreement dated 21 August 2008, the Company and CNAF agreed that the Consideration shall be satisfied by way of cash only. Consequently, the Company will not be issuing any Consideration Shares to CNAF. The Consideration will be funded using the Company’s internal resources.

The Consideration was arrived at after arm's length negotiations between the Company and CNAF on a "willing buyer and willing seller" basis, taking into account a valuation of TSN-PEKCL's operating assets at RMB631.5 million.

2.5.3 Valuation Report

In accordance with PRC regulatory requirements relating to the disposal of State-owned assets, CNAF commissioned a valuation report dated 25 February 2008 ("**First Valuation Report**") and a further valuation report dated 19 June 2008 ("**Second Valuation Report**") both issued by Beijing Zhongfeng Appraisal Co., Ltd (collectively, "**Valuation Reports**"). The First Valuation Report and the Second Valuation Report both value, as at 31 August 2007 and 31 December 2007 respectively, the entire equity capital of TSN-PEKCL at RMB803.2 million on a discounted cash flow basis, assuming a lifespan of 20 years at discount rate of 11%. The Pipeline's assumed lifespan of 20 years was arrived at based on the expected lifespan of the Pipeline of 30 years, less the number of years for which the Pipeline has been in operation (10 years). The discount rate of 11% was determined using the Weighted Average Cost of Capital (WACC) model, which was adopted pursuant to the PRC requirements for asset evaluations for State-owned assets. The WACC model takes into account factors such as the cost of equity, cost of debt after tax, market value of TSN-PEKCL's equity and market value of TSN-PEKCL's debts.

After deducting TSN-PEKCL's non-operating and surplus assets of approximately RMB171.8 million (which are to be returned to CNAF via a capital reduction procedure prior to Completion) and based on the valuation report, TSN-PEKCL's operating assets would amount to approximately RMB631.5 million. Under the Letter of Undertaking, CNAF has undertaken to CAO that it will exercise its voting rights to cause TSN-PEKCL to complete a capital reduction procedure prior to Completion such that an amount of RMB171.8 million (representing the non-operating and surplus assets) will be returned to CNAF. According to the business licence of TSN-PEKCL dated 16 June 2008 issued by Tianjin Municipal Administration for Industry and Commerce, the capital reduction has been completed and the registered capital of TSN-PEKCL has been reduced from RMB321 million to RMB149 million.

The Valuation Reports were obtained by CNAF in compliance with existing PRC laws which in this case required that such a valuation be carried out by a qualified PRC valuation firm on the value of the assets held by TSN-PEKCL. Typically in such cases, the current practice in the PRC is that the PRC party (in this instance, CNAF) commissions the required valuations.

2.5.4 Profit Guarantee

When the proposed Acquisition was announced on 23 April 2008, it was disclosed, *inter alia*, that CNAF was guaranteeing that TSN-PEKCL would achieve a net profit after tax of not less than RMB47.28 million for FY 2008. In light of the fact that Completion is expected to take place in the year 2009, it has been agreed between CNAF and CAO that the profit guarantee for FY 2008 is to be replaced by a new letter of undertaking on TSN-PEKCL's net profit after tax for FY 2009.

Under the Letter of Undertaking, CNAF has guaranteed to CAO that the net profit after tax of TSN-PEKCL in respect of FY 2009 shall not be less than RMB47.28 million ("**Guaranteed Profit**"). If TSN-PEKCL does not achieve the Guaranteed Profit, CAO will have the right to claim compensation in cash from CNAF for the difference between the Guaranteed Profit and TSN-PEKCL's actual audited financial results for FY 2009 *pro rata* its shareholding in TSN-PEKCL. The cash compensation is payable by CNAF within 15 Business Days of CAO making its claim. Based on the historical performance and the

future prospects of TSN-PEKCL's business, the Board is of the view that the Guaranteed Profit is realistic and further, in the event that the Guaranteed Profit is not reached, the compensation claimed is adequate.

To ensure that the Company is able to realise the earnings of TSN-PEKCL, CNAF has agreed in the Letter of Undertaking to exercise its voting rights in TSN-PEKCL such that it will cause TSN-PEKCL to distribute not less than 90% of its annual net profits after tax for each financial year (after deducting tax, any amounts required to make good past accumulated losses and any amounts to be transferred to TSN-PEKCL's statutory reserves).

2.5.5 Pipeline Services Contract

In order for TSN-PEKCL to have an assured revenue flow and to facilitate the achievement of the Guaranteed Profit, CNAFCL, another subsidiary of CNAF, has entered into the Pipeline Services Contract with TSN-PEKCL. Details of the Pipeline Services Contract are set out in Section 5 below.

2.5.6 Put Option

As an additional assurance to protect the Company's investment in the Equity Interest, CNAF will grant a put option to CAO, where CAO will have the option to require CNAF to purchase the Equity Interest from CAO for an amount equal to the Consideration less all dividend distributions received by CAO (the "**Put Option**"). The Put Option will be exercisable at any time after 5 years from the Completion Date. Details of the Put Option are set out in Section 4 below.

2.5.7 Conditions Precedent

Completion of the proposed Acquisition is conditional upon, *inter alia*, the satisfaction of the following conditions precedent at least 10 Business Days prior to Completion:

- (a) the Company obtaining the approval of the Board for its entry into the Agreement and to carry out the transactions contemplated under the Agreement;
- (b) the Company obtaining the approval of the Shareholders for the Agreement and the transactions contemplated thereunder; and
- (c) CNAF obtaining all necessary approvals of the PRC governmental authorities that are necessary for the carrying out of the transactions contemplated under the Agreement including, but not limited to:
 - (i) the approval of the State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**") and SASAC's waiver of the requirement for an auction and bidding procedure in relation to the transfer of the Equity Interest;
 - (ii) the approvals of the Ministry of Commerce and China Securities Regulatory Commission (if applicable) and relevant authorities regulating foreign investment in the PRC; and
 - (iii) the registration of TSN-PEKCL as a Sino-foreign equity joint venture with the Tianjin Municipal Administration of Industry and Commerce.

Unless specifically waived by the Company, if any of the conditions precedent above are not fulfilled prior to Completion, the Agreement shall be deemed to be terminated by agreement whereupon all the rights and liabilities of the Company and CNAF thereunder shall cease and neither CNAF nor the Company shall have any claim against the other for costs, compensation damages, or otherwise save in respect of any antecedent breach of the Agreement.

As at the Latest Practicable Date, the conditions set out in sub-paragraphs 2.5.7(a), 2.5.7(c)(i) and 2.5.7(c)(ii) above have been satisfied. Further, the Company has completed its legal, financial and tax related due diligence on TSN-PEKCL.

2.5.8 Representations and Warranties

The Company and CNAF have each represented and warranted to the other that:

- (a) each of them has the requisite authorisation and capacity to execute the Agreement and the transactions contemplated under the Agreement; and
- (b) the execution of the Agreement is in accordance with their respective constitutive documents.

Under the Agreement (as amended and supplemented by the supplemental agreement to the Agreement), CNAF has made the following representations and warranties to the Company:

- (a) TSN-PEKCL is duly incorporated and registered and existing under PRC laws, has the requisite capacity and possesses all requisite authorisations, permits, consents and approvals of the governmental authorities for the carrying on of its business;
- (b) the copies of the business licence, capital evaluation report, articles of association or other constitutive documents regarding the organisation of TSN-PEKCL that have been provided to the Company are all true, complete and accurate;
- (c) CNAF is the legal and beneficial owner of the Equity Interest and that there are no pledges or any other encumbrance existing over the Equity Interest, nor is there any right of recourse by a third party. CNAF agreed that it shall be liable for all economic and legal liabilities arising from any breach of this warranty;
- (d) TSN-PEKCL is the legal and beneficial owner of its business and material assets, and that no encumbrances such as factoring commitments, third party interests, options, pre-emptive rights, concession rights or hire purchase arrangements are in existence over such assets, nor is any debt of TSN-PEKCL secured by mortgage, pledge, guarantee, lien or other securities in respect of TSN-PEKCL's assets;
- (e) CNAF is the owner of the land use rights in respect of the land used by TSN-PEKCL. CNAF shall indemnify the Company from any loss to TSN-PEKCL caused by land issues in the future save for any losses arising from the illegal occupation of such land by third parties;
- (f) the audited accounts of TSN-PEK ("**Audited Accounts**") have been prepared in accordance with the provisions of all applicable laws of the PRC, and in accordance with the accounting principles, standards and practices generally accepted at the relevant time in the PRC and consistent with the accounting practices adopted by TSN-PEK throughout the financial years 2005, 2006 and 2007, and give a true and fair view of the assets, actual and contingent liabilities, state of affairs, financial position and results of operation of TSN-PEK for the financial year ended on the relevant balance sheet dates, and accurately reflect and disclose all extraordinary items in relation to TSN-PEK;
- (g) Save as disclosed in the Audited Accounts, there are no other outstanding book debts;
- (h) TSN-PEK and/or TSN-PEKCL have as at the date of the Agreement and will on Completion have, paid all tax duties, whether actual, deferrable, contingent or disputable, and whether incurred by TSN-PEK and/or TSN-PEKCL as principal debtor, agent or trustee, and have obtained all necessary documentary evidence on its payment. There are no existing deferrable or outstanding tax duties relating to TSN-PEK and/or TSN-PEKCL;

- (i) CNAF is not engaged in any existing litigation proceedings (including legal action, arbitration or prosecution for any criminal action) against TSN-PEK and/or TSN-PEKCL (or any of its directors in relation to the business of TSN-PEK and/or TSN-PEKCL) which would result in any material adverse effect on the status, assets, debts, financial status, operation and market perspective of TSN-PEKCL. CNAF has also warranted, to its best knowledge and belief, that there is no litigation, whether actual or threatened, that would have a material adverse effect on the status, assets, debts, financial status, operation and market perspective of TSN-PEKCL;
- (j) the financial information as well as other information in relation to the proposed Acquisition provided by CNAF and TSN-PEKCL is accurate; and
- (k) the performance of the Agreement does not and will not result in any breach of material contracts or agreements to which CNAF is a party, or release CNAF or TSN-PEKCL from liabilities under, or award them any right of termination in respect of the foregoing contracts or agreements and which will have a material adverse effect on the value of the Equity Interest.

2.5.9 Other Terms

CNAF has also given the following undertakings to the Company under the Agreement:

- (a) it will not commit, allow or procure any act or omission which would result in the sale, transfer or disposal of any part of TSN-PEKCL's undertakings or assets or property, or purchase, sale, transfer, disposal, lease or licence of any real property or any interest therein, other than in the ordinary course of business;
- (b) it will procure SASAC's waiver of the requirement to submit the Equity Interest to a tender procedure in relation to any transfer of the Equity Interest;
- (c) it will repay all loan principal and interest amounts that are due and payable to TSN-PEKCL prior to the registration of TSN-PEKCL as a Sino-foreign equity joint venture with the Tianjin Municipal Administration of Industry and Commerce;
- (d) it will assist TSN-PEKCL in all procedures to register TSN-PEKCL as a foreign-invested enterprise with the relevant PRC governmental authorities;
- (e) it will assist CAO in making the necessary filings and applications for the approval and registration of the alteration of shareholders in TSN-PEKCL in compliance with the relevant legal procedures;
- (f) it will exercise its voting rights in TSN-PEKCL to constitute a board of directors comprising of 5 directors, 3 of whom are to be nominated by CNAF and 2 of whom are to be nominated by CAO; and
- (g) CNAF will indemnify the Company against any losses caused by any taxation liabilities incurred by TSN-PEKCL prior to or on Completion.

2.6 Information on TSN-PEK and TSN-PEKCL

TSN-PEK is a company incorporated in the PRC and registered as a limited liability legal entity on 6 November 2000 with the Tianjin Municipal Administration for Industry and Commerce as a wholly-owned subsidiary of CNAF. The establishment of TSN-PEK was approved by the State Planning Commission and Civil Aviation Administration of China.

TSN-PEK was initially set up to provide storage, transportation, supply and sale of gasoline, kerosene, diesel oil and naphtha in the civil aviation sector of China as well as consulting and technical services relating thereto.

In November 2003, TSN-PEK increased its registered capital from the initial RMB200 million to RMB321 million following injection by CNAF of fixed assets into TSN-PEK.

On 16 June 2008, TSN-PEKCL, which is wholly owned by CNAF, was registered as a limited liability company where all assets and liabilities of TSN-PEK were transferred to TSN-PEKCL as TSN-PEK's successor-in-title.

With the head office located in Tianjin Binhai International Airport ("**Tianjin Airport**"), TSN-PEKCL is currently engaged in the business of providing logistics and storage services for the jet fuel requirements of Beijing Airport and Tianjin Airport (the "**Airports**") using, *inter alia*, the Pipeline. The Pipeline is the longest multi-oil product pipeline with the largest pipe diameter and the highest transfer volume in the Chinese aviation industry.

The Pipeline is operated via an automated monitoring system consisting of one control station and three monitoring stations and equipped with an automatic alarm system that detects any pipeline leakages. The system controls the operation of the Pipeline, scheduling and monitoring the Pipeline's delivery of oil and maintaining communications between the tank farm at Tianjin Airport and the oil tanks at the Beijing Airport.

As of 2007, the Pipeline transported approximately 90.5% of Beijing Airport's total jet fuel requirements and 41% of Tianjin Airport's total jet fuel requirements. Currently, the Pipeline is operating at 65% of its capacity, heralding high potential of maximising the transportation capacity of the Pipeline.

2.7 Rationale for and Benefits of the Proposed Acquisition to the Company

As part of the plans for the Company's rehabilitation in 2005, the Company, CNAF and BPIA signed a non-binding memorandum of understanding ("**MOU**") dated 5 December 2005 where it was, *inter alia*, agreed that the Company, BPIA and CNAF would explore the possibilities of each of the BP Group and CNAF Group injecting operating assets into the CAO Group. The MOU was extended once but was not further extended when it expired on 28 October 2007.

Notwithstanding the expiry of the MOU and in accordance with the spirit of the MOU, the Company is in the process of evaluating the possibility of acquiring synergetic assets from its major shareholders, including CNAF. In keeping with this strategy, the Company is entering into the proposed Acquisition as it represents a synergetic investment.

The proposed Acquisition indirectly provides the Company with ownership of the infrastructure for jet fuel supply to the Airports. The Pipeline, as the only underground pipeline mode of transportation of jet fuel from Tianjin Nanjiang Port to the Airports, is presently the most cost-efficient and cost-effective means of transportation of jet fuel to Beijing Airport. Through the proposed Acquisition, the Company can directly participate in the business of transporting jet fuel to the Airports. The proposed Acquisition will serve to make the Company an international energy company having an integrated supply chain for both procurement and logistics support services for jet fuel and other oil-related products.

The proposed Acquisition also offers the Company a rare chance to acquire part of a strategic and unique asset in the form of the Pipeline. While the Pipeline's unique nature makes it difficult to value such an asset, the fact remains that such an asset is rare and hard to find in the PRC. Further, high barriers to entry exist due to the Pipeline's unique nature, not only would similar pipelines running from Tianjin Nanjiang Port to Beijing Airport be extremely expensive to build from scratch, but the Pipeline is also a regulated asset and it would be difficult to obtain the necessary approvals to build another similar pipeline from the various regulatory authorities in the PRC.

The proposed Acquisition will also strengthen the Company's capability to ensure the secure supply of jet fuel on competitive terms for onward sale and supply to buyers in the PRC. Through the proposed Acquisition, the Company will be obtaining an oil-related asset, a strategic fit for the Company's oil and jet fuel business. The proposed Acquisition will also allow the Company to diversify its current business from purely trading into logistics as well, and further allow the Company to diversify its earnings base.

2.8 Financial Information on TSN-PEK

As TSN-PEKCL is newly incorporated and registered, it does not have any financial statements prepared. Instead, for purposes of illustration, the financial statements of its predecessor, TSN-PEK, for the financial years ended 31 December 2005, 2006 and 2007 are used in this Circular.

A summary of the profit and loss accounts and balance sheets of TSN-PEK for the three financial years ended 31 December 2005, 2006 and 2007, as extracted from the audited financial statements of TSN-PEK for the financial years ended 31 December 2005, 2006 and 2007, is as follows:

<i>Income Statement</i> <i>(in RMB'000)</i>	FY2005	FY2006	FY2007
Turnover	70,381	98,774	113,079
Profit before taxation	21,395	40,378	70,603
Taxation	7,780	14,116	23,628
Profit after taxation	13,615	26,262	46,975
<i>Balance Sheet</i> <i>(in RMB'000)</i>	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007
Non-current assets	239,780	182,060	175,151
Current assets			
Cash	30,811	23,884	7,678
Investment-short term	25,000	40,000	95,000
Trade receivables	75	—	9,275
Other receivables	50,028	82,556	88,972
Prepayment	435	460	375
Inventory	—	929	1,537
	106,349	147,829	202,837
Current liabilities			
Advance received from customers	1,976	4	—
Staff Cost	(221)	651	—
Dividend payable	7,646	—	39,805
Other payables	5,940	4,210	3,694
Provision for Taxation	2,227	6,710	9,004
	17,568	11,575	52,503
Net Current Assets	88,781	136,254	150,334
Net Assets	328,561	318,314	325,485

Balance Sheet (in RMB'000)	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007
Equity			
Share capital	321,062	321,062	321,062
Reserves	7,499	(2,748)	4,423
Total Equity	<u>328,561</u>	<u>318,314</u>	<u>325,485</u>

Registered capital

As at 31 December 2007, TSN-PEK had a registered capital of RMB321 million or approximately US\$46,875,630.

2.9 Commentary on TSN-PEK's Performance

TSN-PEKCL is in the business of providing pipeline transportation services to CNAFCL for the transport of jet fuel from Tianjin Nanjiang Port to the Airports via the Pipeline. In FY2005, approximately 1.42 million tons of jet fuel was transported through the Pipeline. In FY 2006, this increased by 39.4% to approximately 1.98 million tons. In FY2007, approximately 2.3 million tons of jet fuel was transported via the Pipeline, registering an increase of 16% over the total volume transported in FY2006.

The profitability of TSN-PEK is correlated to the volume of jet fuel transported through the Pipeline. Net profit after tax of TSN-PEK for the FY2005 was RMB13.61 million. In FY2006, net profit after tax increased to RMB26.26 million while in FY2007, net profit after tax further increased to RMB46.97million including non-recurring items comprising (i) a one-off reimbursement of RMB14.8 million by Tianjin Airport Logistics Office, and (ii) loss on disposal of pipeline of RMB1.2 million for relocating its pipeline to make way for the project site of the Airbus A320 assembly line near Tianjin Airport. This is broadly in line with the growth of the volumes of jet fuel transported through the Pipeline for FY2005, FY2006 and FY2007.

In 2007, the amount of jet fuel consumed at Beijing Airport was 2.53 million tons, of which approximately 2.29 million tons or 90.5% of the total volume of jet fuel consumed was transported through the Pipeline.

For 2008, due to the restrictions on flights and number of travellers arriving into Beijing during the 2008 Beijing Olympic Games, growth in the traffic volume at Beijing Airport was affected. Further, at the request of the PRC government to ensure the security of the jet fuel supply to Beijing Airport during the 2008 Beijing Olympic Games, CNAFCL took measures such as increasing the amount of jet fuel transported by rail, procuring jet fuel from Yanshan Petrochemicals, a local refinery in Beijing, and stockpiling a large amount of jet fuel in fuel tanks at Beijing Airport. The security measures, together with the lower growth of traffic in Beijing Airport, are expected to have a negative impact on the total volume of jet fuel transported through the Pipeline for FY 2008.

2.10 TSN-PEKCL's Outlook FY2009

Following the completion of the 2008 Beijing Olympic Games, the PRC government has since rescinded the directives and the number of flights and passengers, as well as the amount of jet fuel being consumed at Beijing Airport, is gradually being restored. Further, jet fuel consumption at Tianjin Airport is expected to increase in 2009, in line with the growth in the amount of cargo transported through Tianjin Airport.

Taking into account the above factors, the Board is of the view that the Guaranteed Profit is realistic.

2.11 Illustrative Financial Effects of the Proposed Acquisition

The *pro forma* financial effects of the proposed Acquisition are purely for illustrative purposes and are neither indicative of the actual financial effects of the proposed Acquisition on the NTA and EPS of the Company nor are they indicative of the financial performance of the Company for the financial year ended 31 December 2007.

The *pro forma* financial effects have been prepared based on the audited consolidated financial statements of the Company for the financial year ended 31 December 2007 and on the audited financial statements of TSN-PEK for the financial year ended 31 December 2007, and assuming that the proposed Acquisition had been effected (i) at the end of the financial year for illustrating the financial effects on the consolidated NTA of the Company, and (ii) at the beginning of that financial year for illustrating the financial effects on the consolidated earnings of the Company.

2.11.1 Effect on NTA per share

The effects of the proposed Acquisition on the consolidated NTA per share of the Company as at 31 December 2007, assuming that the proposed Acquisition had been effected at the end of the financial year, are summarised below:

	Before the proposed Acquisition	After the proposed Acquisition
As at 31 December 2007		
NTA (US\$) — including gain on CLH ¹	268,313,246	268,031,560
Number of shares issued	722,820,537	722,820,537
NTA per share (US cents)	37.12	37.08

Note:

(1) CAO sold its 5% holding in CLH, an energy distribution company in January 2007. Gain from the sale is a one-off gain.

The NTA value of the Group includes the fair value of the net assets acquired of TSN-PEK which is determined on a provisional basis.

2.11.2 Effect on EPS

Assuming that the proposed Acquisition had been effected at the beginning of the financial year 2007 and based on the Company's audited consolidated financial statements for the financial year ended 31 December 2007, the *pro forma* effects on the consolidated earnings of the Company are as follows:

	Before the proposed Acquisition	After the proposed Acquisition
As at 31 December 2007		
Earnings (US\$) — including gain on CLH ¹	168,333,972	171,033,939
Number of shares issued	722,820,537	722,820,537
Earnings per share (US cents)	23.29	23.66

	Before the proposed Acquisition	After the proposed Acquisition
As at 31 December 2007		
Earnings (US\$) — excluding gain on CLH ¹	33,533,892	36,233,859
Number of shares issued	722,820,537	722,820,537
Earnings per share (US cents)	4.64	5.01

Note:

(1) CAO sold its 5% holding in CLH, an energy distribution company in January 2007. Gain from the sale is a one-off gain.

2.11.3 Effect on Share Capital

As the Consideration is to be satisfied fully in cash, the proposed Acquisition is not expected to have any impact on the current share capital of the Company.

2.11.4 Effect on Gearing

As the Consideration is to be fully funded using the internal cash resources of the Company, the proposed Acquisition is not expected to have any impact on the gearing of the Company.

3. JOINT VENTURE AGREEMENT

3.1 Salient Terms

In connection with the proposed Acquisition, the Company and CNAF have also entered into a joint venture agreement dated 23 April 2008 (“**JVA**”) to govern their relationships as Shareholders *inter se*. All rights and obligations under the JVA will be enforceable upon approval for the Enterprise Joint Venture (“**EJV**”) by the relevant PRC authority. The Company and CNAF subsequently entered into a supplemental agreement on 21 August 2008 to amend the JVA.

Salient terms of the JVA (as amended) are as follows.

- (a) CNAF and the Company will establish TSN-PEKCL as an EJV in Tianjin Municipal in accordance with the prevailing PRC laws and regulations;
- (b) TSN-PEKCL will be a limited liability company;
- (c) Each party has a right of first refusal in the event the other party wishes to transfer or sell its equity interest in TSN-PEKCL;
- (d) Unanimous approval of the board of directors of TSN-PEKCL (“**TSN-PEKCL’s Board**”) is required in respect of the following matters:
 - (i) Alterations to the Articles of Association of TSN-PEKCL;
 - (ii) Suspension, dissolution or liquidation of TSN-PEKCL or extension of the duration of the joint venture;
 - (iii) Increase in, reduction of or any transfer of the registered capital of TSN-PEKCL;
 - (iv) Any amalgamation, merger of or demerger of TSN-PEKCL;
 - (v) The granting of any security interest over any assets of TSN-PEKCL;
 - (vi) Annual budget of TSN-PEKCL; and
 - (vii) Any changes in TSN-PEKCL’s service charges for providing pipeline transportation services.

Except as aforesaid, other matters will require the simple majority approval of directors of TSN-PEKCL present at the meeting;

- (e) The General Manager of TSN-PEKCL shall be nominated by CNAF. The Deputy General Manager of TSN-PEKCL shall be nominated by the Company. The General Manager and Deputy General Manager of TSN-PEKCL shall be appointed by TSN-PEKCL’s Board;
- (f) TSN-PEKCL’s Board shall comprise 5 directors, 3 of whom shall be nominated by CNAF and 2 of whom shall be nominated by the Company. The Chairman of TSN-PEKCL’s Board shall be nominated by CNAF and shall be the legal representative of TSN-PEKCL;
- (g) TSN-PEKCL’s Board shall meet at least once a year. The quorum for TSN-PEKCL’s Board meetings shall be at least 4, of whom at least one director shall be a director nominated by CNAF and one director shall be a director nominated by the Company. The Chairman of

TSN-PEKCL's Board, or in his/her absence, the deputy Chairman, shall have the right to convene and chair the Board meeting;

- (h) Duration of the joint venture will be 20 years from the date of issue of the business licence;
- (i) At least 90% of distributable profits of TSN-PEKCL are to be distributed annually to each shareholder *pro rata* its shareholding in TSN-PEKCL;
- (j) Where TSN-PEKCL suffers any diminution in value due to TSN-PEKCL having incurred losses that exceed the accumulated profits of TSN-PEKCL, each party is to record such impairment to the value of TSN-PEKCL in its financial statements *pro rata* its shareholding in TSN-PEKCL;
- (k) Disputes under or in connection with TSN-PEKCL shall be resolved by arbitration of which the arbitral tribunal shall be the China International Economic and Trade Arbitration Commission;
- (l) In the event that TSN-PEKCL incurs significant losses resulting in its inability to pay its debts when they fall due and its assets are insufficient to satisfy its liabilities, the JVA (as amended and supplemented by the supplemental agreement to the JVA) may be terminated upon the unanimous approval of the TSN-PEKCL's Board; and
- (m) Upon the expiration or early termination of the term of the joint venture, or the dissolution of TSN-PEKCL, the shareholders shall form a liquidation committee to liquidate TSN-PEKCL and upon full payment of all its liabilities, the remaining assets of TSN-PEKCL shall be distributed at net book value in proportion to the parties' respective capital contribution of 51% from CNAF and 49% from the Company towards the registered capital of TSN-PEKCL.

3.2 Rationale for and benefits of the JVA

The JVA seeks to regulate the conduct of CNAF and CAO between each other as shareholders of TSN-PEKCL, and is entered into in compliance with the requirements of PRC laws.

It is to be noted that the profits and losses attributable to TSN-PEKCL are to be shared between CNAF and CAO *pro rata* their respective interests in TSN-PEKCL.

Following the establishment of the EJV, all matters concerning the EJV as outlined in the JVA and the supplemental agreement to the JVA (including any further capital injections into TSN-PEKCL) will have to be approved by CAO's board. To prevent any conflict of interests, only the Directors who have no interest (whether direct or indirect) in such matters (i.e. which are presently the Independent Directors) may vote on any decision regarding such matters. None of the Directors nominated by CNAF shall vote on such matters.

Of the 2 directors to be nominated by CAO to TSN-PEKCL's Board, 1 director will be an Independent Director of CAO.

Any further capital injections into TSN-PEKCL will also be taken into consideration when determining the net amount payable to CAO under the Put Option. The net amount payable to CAO in such a case will be based on the Consideration less the accumulated dividends received by the Company from TSN-PEKCL and including the further capital injections into TSN-PEKCL.

The Audit Committee confirms that all risks and rewards under the JVA are to be shared *pro rata* between CNAF and CAO based on their each of their respective interests in TSN-PEKCL.

Shareholders are to note that by approving the proposed Acquisition, they would also be approving the terms of the JVA and transactions conducted between CAO and CNAF under the JVA (such as any further increases or reductions in the equity capital of TSN-PEKCL proportionate to their respective shareholdings in TSN-PEKCL, retention of profits as future working capital, dividend or other distributions) and no further approval will be sought from Shareholders for transactions conducted between the Company and CNAF pursuant to the JVA, provided the risks and rewards are shared *pro rata*.

If the CAO Group were to acquire CNAF's equity interest in TSN-PEKCL or dispose of the Equity Interest in any manner other than pursuant to the Put Option, such acquisition or disposal will be subject to the provisions of Chapter 9 (if applicable) and Chapter 10 of the Listing Manual.

4. PUT OPTION

4.1 Grant of Put Option

Under the Agreement, CNAF will, on Completion grant the Company the Put Option to require CNAF to purchase the Equity Interest, exercisable by the Company at any time after 5 years from the date of Completion, on the same valuation of TSN-PEKCL at RMB631,473,081 which is the equivalent of approximately US\$92.21 million.

In the event the Put Option is exercised by the Company, the consideration ("**Saleback Consideration**") shall be RMB309,421,810 less the accumulated dividends received by the Company from TSN-PEKCL. Payment of the Saleback Consideration shall be made in cash, in US currency (US\$), based on the exchange rate then prevailing at the time of payment.

The Saleback Consideration was arrived at after arm's length negotiations between the Company and CNAF on a "*willing buyer and willing seller*" basis. It is fixed at the same price as the Consideration so as to allow the Company to resell the Equity Interest to CNAF at the same price it acquired the Equity Interest.

4.2 Rationale for and Benefits of Put Option

The Put Option is being granted to the Company as an additional assurance for the Company's investment in the Equity Interest, in addition to the profit guarantee granted by CNAF.

The Saleback Consideration will protect the value of the Company's investment in TSN-PEKCL by allowing the Company to divest the Equity Interest at the same price at which it acquired the Equity Interest even if the value of the Equity Interest were to be lower.

4.3 Procedure for Exercise of Put Option

It is proposed that the Board be given the discretion and authority to decide on whether and when the Company may exercise the Put Option. To prevent any conflict of interests, only the Directors who have no interest (whether direct or indirect) in the Put Option (i.e. which are presently the Independent Directors) may vote on the decision to exercise the Put Option. None of the Directors nominated by CNAF shall vote on the matter. In the event the Company seeks to dispose of the Equity Interest (whether pursuant to the Put Option or otherwise), the Company will commission a valuation report on the Equity Interest and the Board will announce the reasons and rationale for such exercise.

Shareholders are to note that by approving the proposed Acquisition, they would also be approving the terms of the Put Option and that they would also be giving the Directors who are independent for the purposes of the Put Option the discretion and authority to exercise the Put Option on behalf of the Company.

5. PIPELINE SERVICES CONTRACT

5.1 Terms of Pipeline Services Contract

As disclosed in Section 2.5.5 above, CNAFCL has entered into the Pipeline Services Contract with TSN-PEK on 7 May 2008 for a 5-year term effective from 1 January 2008. Under the Pipeline Services Contract, both CNAFCL and TSN-PEK agree to transfer all rights and obligations of TSN-PEK under the Pipeline Services Contract to TSN-PEKCL (as TSN-PEK's successor-in-title) after TSN-PEKCL has been registered as a limited liability company.

Upon expiry, the Pipeline Services Contract shall be automatically renewed for a further term of 5 years. In the event that there are material changes in the laws, regulations or industrial policies of PRC which the parties mutually agree might result in a material adverse impact on either TSN-PEKCL (as TSN-PEK's successor-in-title) or CNAFCL, both TSN-PEKCL (as TSN-PEK's successor-in-title) and CNAFCL shall be entitled to re-negotiate the terms of the Pipeline Services Contract.

Under the Pipeline Services Contract, CNAFCL has agreed that it shall, except due to circumstances beyond its control, utilize the entire capacity of the Pipeline of 3.25 million tons per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of the Pipeline Services Contract. TSN-PEKCL transported a cumulative total of 2.3 million tons of aviation fuel in FY 2007 to achieve an audited net profit after tax (including a non-recurring item) of RMB46.97 million or approximately US\$6,859,029. The abovementioned non-recurring item refers to (i) a one-off reimbursement of RMB14.8 million by Tianjin Airport Logistics Office and (ii) loss on disposal of pipeline of RMB 1.2 million for relocating its pipeline to make way for the project site of the Airbus A320 assembly line near Tianjin Airport.

TSN-PEKCL provides pipeline transportation services to CNAFCL at a pipeline price that is bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, with reference to the pipeline transportation prices prescribed by the State Development and Planning Commission. The price for the provision of pipeline transportation services to CNAFCL is determined annually. Currently, pipeline transportation services are charged by TSN-PEKCL to CNAFCL at the rate of RMB 50 for every ton of jet fuel transported through the Pipeline to Beijing Airport. The price of RMB 50 is higher than the pipeline transportation prices currently prescribed by the State Development and Planning Commission. In addition, both TSN-PEKCL and CNAFCL have a right to call for the review of the price for the provision of pipeline transportation services to CNAFCL upon the occurrence of any event that materially affects the business of TSN-PEKCL and/or CNAFCL. Any changes in pricing will require the unanimous approval of TSN-PEKCL's Board.

Further details and terms of the Pipeline Services Contract are set out in Appendix III.

As TSN-PEKCL will on Completion become an “associated company” of CAO and by virtue of CNAFCL being a subsidiary of CNAF and CNAF being a Controlling Shareholder of the Company, it is to be noted that all transactions to be entered into between TSN-PEKCL and CNAFCL after Completion (including transactions pursuant to the Pipeline Services Contract) will be considered as “interested person transactions” for the purposes of Chapter 9 of the Listing Manual.

5.2 Rationale for and Benefit of the Pipeline Services Contract

CNAFCL is currently the sole customer of TSN-PEKCL. In addition, CNAFCL is currently the sole supplier of aviation fuel to Beijing Airport and Tianjin Airport, which are respectively the termination point and a supply point on the Pipeline. Given the significance of the Pipeline Services Contract, the Pipeline Services Contract should be considered as an integral part of the proposed Acquisition.

Shareholders are therefore to note that by approving the proposed Acquisition, they would also be approving the provision of pipeline transportation services by TSN-PEKCL to CNAFCL under the Pipeline Services Contract on the above terms for the remaining duration of the Pipeline Services Contract, and with the exception of the matters set out in Section 5.4 below, no further Shareholders' approval will be sought for the Pipeline Services Contract.

5.3 Review Procedures for Determining Pipeline Transportation Service Prices

To ensure that the pipeline transportation services are conducted on normal commercial (or, in the absence of other similar comparable transactions, fair and reasonable) terms and will not be prejudicial to the interests of the Company and its minority Shareholders, the proposed prices for pipeline transportation services to CNAFCL will be reviewed and agreed to by members of the Audit Committee who have no interest (whether direct or indirect) in the Pipeline Services Contract. In reviewing and determining the future price(s) for pipeline transportation services, any decision made by the Audit Committee will take into account the following parameters:

- (a) Any directives or guidelines relating to pipeline transportation prices prescribed by the State Development and Planning Commission (or such other PRC authority having jurisdiction to prescribe such prices). The renewed pricing must not be less than the prices prescribed by the relevant PRC authority;
- (b) The prices for pipeline transportation services charged by TSN-PEKCL to CNAFCL immediately prior to the review; and
- (c) Comparison of the pipeline transportation prices offered by TSN-PEKCL to CNAFCL and associated costs (such as operating costs and overheads) against the prices and associated costs (such as operating costs and overheads) from a comparable unrelated pipeline transportation business wherever located.

The Audit Committee will also take into account such other factors as it sees relevant in making its decision.

5.4 Matters Not Covered Under Mandate Granted By Shareholders

Shareholders are to note that any variation of the terms of the Pipeline Services Contract (which have been outlined in this Circular) and any variations in the prices charged for pipeline transportation services will be subject to Chapter 9 of the Listing Manual and the Company will make the appropriate announcements and seek shareholder approval in compliance with those Listing Rules.

6. RISK FACTORS

Shareholders, in making their assessment of the proposed Acquisition, including whether to vote for the resolutions in relation to the proposed Acquisition, are advised to take into account, *inter alia*, the following risks relating to the proposed Acquisition. The risks stated herein are not intended to be exhaustive, and there may be other risks which could affect the proposed Acquisition:

(a) Operational risk of running the Pipeline

Under the terms of the Pipeline Services Contract, TSN-PEKCL is responsible for the smooth running as well as the maintenance of the Pipeline. TSN-PEKCL's business is heavily dependant on the continued smooth operation of the Pipeline and any unforeseen circumstances (such as the leakage of jet fuel, pilferage or an increase in the number of days required for the maintenance of the Pipeline) which disrupt the smooth operation of the Pipeline would have an impact on TSN-PEKCL's ability to provide pipeline transportation services, which would have an adverse effect on its business.

(b) *Limited capacity of the Pipeline*

The maximum operational capacity of the Pipeline is limited to 3.25 million tons per year, all of which will be utilised as per the terms of the Pipeline Services Contract. As such, TSN-PEKCL will be unable to meet any increase in demand for pipeline transportation services unless it resorts to further capital expenditure to expand the maximum operational capacity of the Pipeline. Further, any such expansion will take time and may affect the smooth operation of the Pipeline in the meantime.

(c) *Risk of changes to Pipeline Transportation Services Prices*

TSN-PEKCL is exposed to the risk that there may be fluctuations/changes in the price that it is able to charge for its Pipeline Transportation Service. Factors which may contribute to such changes include any future directives or guidelines relating to pipeline transportation prices prescribed by the State Development and Planning Commission (or such other PRC authority having jurisdiction to prescribe such prices).

(d) *Limited upside due to the fixed price for Pipeline Transportation Services and the fixed capacity of the Pipeline*

TSN-PEKCL's business has limited upside potential due to the fixed capacity of the Pipeline and the fixed nature of the price charged for Pipeline Transportation Services. Any plans to increase the upside potential of TSN-PEKCL business will necessarily require further capital expenditure and potentially result in disruption to TSN-PEKCL's business in the meantime.

(e) *CAO will only hold a minority stake in TSN-PEKCL*

Following the completion of the proposed Acquisition, CAO will hold a minority stake in TSN-PEKCL. TSN-PEKCL will be operated through a joint venture, with CNAF retaining the majority in TSN-PEKCL's equity capital. As such, CAO may have limited control in relation to certain operational decisions and aspects of the joint venture.

(f) *Approval from the relevant PRC authorities will be required for any subsequent disposal*

Following the completion of the proposed Acquisition, any subsequent disposal of CAO's stake in TSN-PEKCL will be subject to such disposal obtaining all necessary approvals of the relevant PRC governmental authorities. The requirement for these approvals to be obtained could materially affect the ability of CAO to effect any disposal of the Equity Interest.

(g) *The Pipeline is exposed to natural catastrophes and disasters*

The Pipeline is exposed to natural catastrophes and disasters including but not limited to the possibility of earthquakes, flooding, landslides and fire hazards. If any such events affect and/or cause damage to the Pipeline, TSN-PEKCL's business will be adversely affected.

(h) *TSN-PEKCL's business depends on adequate insurance coverage and is susceptible to increases in insurance premiums*

Upon the occurrence of any natural catastrophe or disaster or any deterioration in the security conditions in the region where the Pipeline is located may lead to further increases in the insurance premiums charged by insurers or the withdrawal by insurers from providing insurance coverage. An inability to secure adequate insurance coverage for the Pipeline may result in TSN-PEKCL being unable to operate the Pipeline and would consequently have an adverse effect on TSN-PEKCL's business.

(i) *Expiration/Non-Renewal of the Pipeline Services Contract*

Following the expiration of both the current term and the subsequent 5-year term of the Pipeline Services Contract, TSN-PEKCL's business will be badly affected should there be a failure to renegotiate a further extension to the Pipeline Services Contract given that CNAFCL is currently the sole customer of TSN-PEKCL as well as the sole supplier of aviation fuel to Beijing Airport and Tianjin Airport, which are respectively the termination point and a supply point on the Pipeline.

7. CIMB-GK'S ADVICE TO INDEPENDENT DIRECTORS

7.1 Appointment of CIMB-GK

Pursuant to Rule 921(4)(a) of the Listing Manual which requires an opinion of an independent financial adviser to be included in this Circular, CIMB-GK has been appointed as the independent financial adviser to the Independent Directors to provide their opinion on:

- (a) whether the proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders; and
- (b) whether the methods and procedures for determining the transaction prices under the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms and will not be prejudicial to the Company or its minority Shareholders.

7.2 IFA's Advice

An extract of the IFA's letter dated 15 December 2008 summarising its opinion to the Independent Directors in relation to the proposed Acquisition is reproduced below:

"In arriving at our opinion on whether the terms of the Proposed Acquisition are on normal commercial terms and whether they are prejudicial to the interests of the Company and its Shareholders, we considered the factors set out in the previous sections of this report. Our conclusions in respect of the factors considered are set out below:

(a) Rationale and Benefits for the Proposed Acquisition

We have reviewed the rationale and benefits for the Proposed Acquisition and note that the Proposed Acquisition is being made on certain bases, in particular, the following:

- (i) *Notwithstanding the expiry of the MOU and in accordance with the spirit of the MOU, the Company is in the process of evaluating the possibility of acquiring synergistic assets from its major shareholders, including CNAF. In keeping with this strategy, the Company is entering into the Proposed Acquisition as it represents a synergistic investment.*
- (ii) *The Proposed Acquisition indirectly provides the Company with ownership of the infrastructure for jet fuel supply to the Beijing Airport and Tianjin Airport. The Pipeline, as the only underground pipeline mode of transportation of jet fuel from Tianjin Nanjiang Port to the Airports, is presently the most cost-efficient and cost-effective means of transportation of jet fuel to Beijing Airport. Through the Proposed Acquisition, the Company can directly participate in the business of transporting jet fuel to the Beijing Airport and Tianjin Airport. The Proposed Acquisition will serve to make the Company an international energy company having an integrated supply chain for both procurement and logistics support services for jet fuel and other oil-related products.*

- (iii) *The Proposed Acquisition also offers the Company a rare chance to acquire part of a strategic and unique asset in the form of the Pipeline. While the Pipeline's unique nature makes it difficult to value such an asset, the fact remains that such an asset is rare and hard to find in the PRC. Further, high barriers to entry exist due to the Pipeline's unique nature, not only would similar pipelines running from Tianjin Nanjiang Port to Beijing Airport be extremely expensive to build from scratch, but the Pipeline is also a regulated asset and it would be difficult to obtain the necessary approvals to build another similar pipeline from the various regulatory authorities in the PRC.*
- (iv) *The Proposed Acquisition will also strengthen the Company's capability to ensure the secure supply of jet fuel on competitive terms for onward sale and supply to buyers in the PRC. Through the Proposed Acquisition, the Company will be obtaining an oil-related asset, strategic fit for the Company's oil and jet fuel business.*
- (v) *The Proposed Acquisition will also allow the Company to diversify its current business from purely trading into logistics as well, and further allow the Company to diversify its earnings base.*

(b) Financial Assessment of the Proposed Acquisition

In reviewing the Proposed Acquisition, we have considered the following:–

- (i) *The Consideration was based on the valuation of TSN-PEKCL as at 31 December 2007 of approximately RMB631.5 million. The Consideration was arrived at after arm's length negotiations between the Company and CNAF, on a "willing buyer and willing seller" basis, taking into account the valuation of TSN-PEKCL.*
- (ii) *There is insufficient evidence to determine conclusively whether or not the current market price of the Shares as at the Latest Practicable Date is influenced, either positively or negatively, by the Proposed Acquisition.*
- (iii) *Based on the Consideration paid, the P/E ratio of TSN-PEKCL is above the range of the P/E ratios of the Comparable Companies. In addition, the P/E ratio of TSN-PEKCL is above the P/E ratio of CAO as at the Latest Practicable Date.*
- (iv) *Based on the Consideration paid, the estimated P/E ratio of TSN-PEKCL is above the mean and median of the estimated P/E ratios of the Comparable Companies but is within the range of the estimated P/E ratios of the Comparable Companies as at the Latest Practicable Date.*
- (v) *Based on the Consideration paid, the P/NTA ratio of TSN-PEKCL is above the range of P/NTA ratios of the Comparable Companies and the P/NTA ratio of CAO as at the Latest Practicable Date. However, the book value of TSN-PEK in our computation has not been revalued and we note that the Consideration is equal to the valuation of TSN-PEKCL by the Valuer appointed by CNAF.*
- (vi) *Based on the Consideration paid, the EV/EBITDA ratio of TSN-PEKCL is marginally above the mean and median of the EV/EBITDA ratios of the Comparable Companies but is within the range of the EV/EBITDA ratios of the Comparable Companies. In addition, the EV/EBITDA ratio of TSN-PEKCL is above the EV/EBITDA ratio of CAO as at the Latest Practicable Date.*
- (vii) *Based on the Consideration paid, the EV/EBITDA ratio of TSN-PEKCL is below the Comparable Transaction.*
- (viii) *Pursuant to the Supplemental Agreement to the Agreement dated 21 August 2008, the Company and CNAF agreed that the Consideration shall be satisfied by way of cash only. Consequently, the Company will not be issuing any Consideration Shares to CNAF.*

(c) Pro forma Financial Effects of the Proposed Acquisition

We note the following potential impacts on the EPS and NTA of the Company following the Proposed Acquisition:

- (i) EPS (excluding the gain on CLH) will increase by approximately 8.0% from 4.64 US cents to 5.01 US cents. NTA of the Company (including the gain on CLH) will decrease by approximately 0.1% from 37.12 US cents to 37.08 US cents.

(d) Other Relevant Factors

We have also taken into consideration the other relevant factors as described in paragraph 5.4 of this letter, in particular, the following:

- (i) CNAF has guaranteed that TSN-PEKCL's net profit after tax for FY2009 shall not be less than RMB47.28 million. If TSN-PEKCL does not achieve the Guaranteed Profit, CAO will have the right to claim compensation in cash from CNAF for the difference between the Guaranteed Profit and TSN-PEKCL's actual audited financial results for FY2009 pro rata its shareholding in TSNPEKCL. The cash compensation is payable by CNAF within 15 Business Days of CAO making its claim. Based on the historical performance and the future prospects of TSN-PEKCL's business, the Board of CAO is of the view that the Guaranteed Profit is realistic and further, in the event that the Guaranteed Profit is not reached, the compensation is adequate;
- (ii) TSN-PEKCL has a sole customer, CNAFCL. CNAFCL is the sole supplier of aviation fuel to Beijing Airport and Tianjin Airport, which are respectively the termination point and a supply point on the Pipeline. In order for TSN-PEKCL to have an assured revenue flow and to facilitate the achievement of the Guaranteed Profit, CNAFCL has entered into the Pipeline Services Contract with TSN-PEKCL. Under the Pipeline Services Contract, both CNAFCL and TSN-PEKCL agree to transfer all rights and obligations of TSN-PEK under the Pipeline Services Contract to TSN-PEKCL after TSN-PEKCL has been registered as a limited liability company. Upon expiry, the Pipeline Services Contract shall be automatically renewed for a further term of 5 years. In the event that there are material changes in the laws, regulations or industrial policies of PRC which the parties mutually agree might result in a material adverse impact on either TSN-PEKCL or CNAFCL, both TSN-PEKCL and CNAFCL shall be entitled to re-negotiate the terms of the Pipeline Services Contract;
- (iii) Under the Pipeline Services Contract, CNAFCL has agreed that it shall, except due to circumstances beyond its control, utilise the entire capacity of the Pipeline of 3.25 million tons per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of the Pipeline Services Contract. TSN-PEKCL transported a cumulative total of 2.3 million tons of aviation fuel in FY2007 to achieve an audited net profit after tax (including a non-recurring item) of RMB46.97 million. The abovementioned nonrecurring item refers to (i) a one-off reimbursement of RMB14.8 million by Tianjin Airport Logistics Office, and (ii) loss on disposal of pipeline of RMB1.2million for relocating its pipeline to make way for the project site of the Airbus A320 assembly line in the Tianjin Airport;
- (iv) TSN-PEKCL provides pipeline transportation services to CNAFCL at a pipeline price that is bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, taking into account the pipeline transportation prices prescribed by the State Development and Planning Commission. The price for the provision of pipeline transportation services to CNAFCL is determined annually. Currently, the price for the provision of pipeline transportation services are charged by TSN-PEKCL to CNAFCL at the rate of RMB50 for every ton of jet fuel transported through the Pipeline to Beijing Airport. The price of RMB50 is higher than the pipeline transportation prices currently prescribed by the State Development and Planning Commission. In addition, both TSN-PEKCL and CNAFCL have a right to call for the review of the price for the

provision of pipeline transportation services to CNAFCL upon the occurrence of any event that materially affects the business of TSN-PEKCL and/or CNAFCL. Any changes in pricing will require the unanimous approval of TSN-PEKCL's board of directors;

- (v) Under the Agreement, CNAF will, on Completion grant the Company the Put Option to require CNAF to purchase the Equity Interest, exercisable by the Company at any time after 5 years from the date of Completion, on the same valuation of TSN-PEKCL at RMB631,473,081. In the event the Put Option is exercised by the Company, the Saleback Consideration shall be RMB309,421,810 less the accumulated dividends received by the Company from TSN-PEKCL. Payment of the Saleback Consideration shall be made in cash, in US currency (US\$). This, to a certain extent, protects the downside risk of the Proposed Acquisition to the Company; and
- (vi) In the event the Company seeks to dispose of the Equity Interest (whether pursuant to the Put Option or otherwise), the Company will commission a valuation report on the Equity Interest and the Board will announce the reasons and rationale for such exercise. Any subsequent disposal of the Company's stake in TSN-PEKCL will be subject to such disposal obtaining the necessary approvals of the relevant PRC governmental authorities.

Based on the P/E ratio and P/NTA ratio set out under the Financial Assessment above, and in light of the monetary, industry, market, economic and other relevant conditions subsisting on the Latest Practicable Date, we are of the opinion that the consideration for the Proposed Acquisition does not compare favourably with the P/E ratio and P/NTA ratio of the Comparable Companies.

However, based on the EV/EBITDA ratio, the consideration for the Proposed Acquisition is comparable to the EV/EBITDA ratio of the Comparable Companies. In addition, the consideration for the Proposed Acquisition compares favourably with the Comparable Transaction. The Proposed Acquisition is also earnings accretive and the Company has also negotiated additional provisions for the benefit of the Company, such as the Pipeline Services Contract, the Put Option and the JVA. In particular, the Put Option enables the Company to recover its cost of investment in a worst case scenario.

The Company has also stated the Rationale and Benefits of the Proposed Acquisition (as set out in paragraph 2.7 of the Circular), in particular, that the Pipeline is a strategic and unique asset that is difficult to come by with high barriers to entry, which is expected to benefit the Company in the long term.

After carefully considering the information available to us as of, and based on our considerations above, we are of the opinion that, on balance, the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its Shareholders.

Accordingly, we advise the Independent Directors to recommend that the Shareholders vote in favour of the Proposed Acquisition at the EGM.

We have prepared this letter for the use of the Independent Directors of the Company in connection with and for the purposes of their consideration of the Proposed Acquisition and for inclusion in the Circular. No other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner except with CIMB-GK's prior written consent. Notwithstanding the generality of the preceding, for the avoidance of doubt, nothing in this letter prevents the Company, its Directors and Shareholders from reproducing, disseminating or quoting this letter for the purposes of the Independent Directors' recommendation to the Shareholders in relation to the Proposed Acquisition.

In rendering the above opinion, we have not taken into consideration the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual Shareholder. Accordingly, any individual Shareholder who may require specific advice in relation to his investment portfolio including his investment in the Shares should consult his stockbroker, bank manager, solicitor, accountant, tax adviser, or other professional adviser immediately.”

Copies of each of the letters from CIMB-GK advising the Independent Directors on the proposed Acquisition and the methods and procedures for determining the transaction prices under the Pipeline Services Contract respectively are set out in Appendix II of this Circular (“**CIMB-GK Letters**”). Shareholders are advised to read the opinion of CIMB-GK carefully and consider it in the context of this Circular before deciding whether to approve the proposed Acquisition.

Taking into consideration the factors set out in the respective CIMB-GK Letters, CIMB-GK is of the view that (a) the proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company or the Independent Shareholders and (b) the methods and procedures for determining the prices for pipeline transportation services are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the Company or its minority Shareholders.

8. STATEMENT OF THE AUDIT COMMITTEE

Having considered, *inter alia*, the terms, the rationale for and the benefits of the proposed Acquisition, the Audit Committee (save for Mr. Zhao Shousen, who is an employee and nominee of CNAF) is satisfied that the proposed Acquisition, the JVA, the Put Option and the Pipeline Services Contract, including but not limited to their respective financial terms, are reasonable and will not be prejudicial to the interests of the Company and its minority Shareholders.

9. DIRECTORS’ RECOMMENDATIONS

Having carefully reviewed all relevant facts and circumstances, including the rationale and the terms and conditions of the proposed Acquisition as well as the advice of CIMB-GK, the Independent Directors are of the view that the entire transaction, including but not limited to its financial terms, on normal commercial terms, are reasonable, and will not be prejudicial to the interests of the Company and its minority Shareholders. Shareholders are accordingly recommended to vote in favour of the resolution relating to the proposed Acquisition and the transactions related thereto as set out in the notice of EGM on page 57 of this Circular.

Shareholders are advised to read this Circular in its entirety, including the rationale for and the benefits of the proposed Acquisition, the JVA, the Put Option and the Pipeline Services Contract as respectively set out in Sections 2.7, 3.2, 4.2 and 5.2 above as well as the advice of CIMB-GK set out in the Appendix II. Shareholders who may require advice in the context of their specific investment are advised to consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.

10. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on page 57 of this Circular, will be held at Suntec Singapore International Convention and Exhibition Centre, Meeting Rooms 208-209, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Friday, 9 January 2009 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the resolution set out in the notice of EGM.

11. ACTION TO BE TAKEN BY SHAREHOLDERS

A Shareholder who is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, may complete, sign and return the proxy form attached to the notice of EGM in accordance with the instructions printed thereon as soon as possible and in any event so as to

reach the registered office of the Company at 8 Temasek Boulevard, #31-02 Suntec Tower Three, Singapore 038988, not later than 7 January 2009 at 3:00 p.m.. The completion and return of the proxy form by a Shareholder will not prevent him from attending and voting at the EGM, if he wishes to do so, in place of his proxy.

A Depositor shall not be regarded as a member of the Company entitled to attend the EGM and to speak and vote thereat unless his name appears on the Depository Register maintained by the CDP, pursuant to Division 7A of Part IV of the Companies Act, at least 48 hours before the EGM.

12. SHAREHOLDERS WHO WILL ABSTAIN FROM VOTING

By virtue of their interests in the proposed Acquisition, and also as required by Chapters 8 and 9 of the Listing Manual, CNAF will abstain and has undertaken to ensure that its associates will abstain from voting on the ordinary resolution in relation to the proposed Acquisition to be proposed at the EGM.

Further, CNAF undertakes to decline to accept appointment as proxies to vote and attend at the forthcoming EGM in respect of the ordinary resolution in relation to the proposed Acquisition for other Shareholders of the Company unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast.

13. DIRECTORS' RESPONSIBILITY STATEMENT

The issue of this Circular to Shareholders has been seen and approved by all the Directors (including those who may have delegated supervision of this Circular) who have taken all reasonable care to ensure that the facts stated and the opinions expressed in this Circular (excluding those expressed by CIMB-GK in the CIMB-GK Letters as well as the separate recommendations of the Independent Directors) are fair and accurate in all material respects and that no material facts have been omitted which would make any such information misleading in any material respect. However, in respect of the CIMB-GK Letters, the sole responsibility of the Directors has been to ensure that the facts stated with respect to the Group are fair and accurate in all material respects. The Directors jointly and severally accept responsibility accordingly.

14. ADDITIONAL INFORMATION

Your attention is drawn to Appendix I to this Circular, which sets out additional information relating to, *inter alia*, Directors' and substantial Shareholders' interests in the issued share capital of the Company, material litigation (if any) affecting the CAO Group.

Yours faithfully

For and on behalf of the Board of Directors of
China Aviation Oil (Singapore) Corporation Ltd

Wang Kai Yuen
Independent Chairman

ADDITIONAL INFORMATION

1. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at the Latest Practicable Date, none of the Directors has any interest in the Shares of the Company.

The interests of the Controlling Shareholders in the Shares as at the Latest Practicable Date are set out below:

Name of Controlling Shareholders	Direct Interest (No. of Shares)	%	Deemed Interest (No. of Shares)	%
CNAF	—	—	367,777,427*	50.88
BPIA	144,564,119	20.00	—	—

* Held through DBS Vickers Securities (Singapore) Pte Ltd

2. MATERIAL LITIGATION

The Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or any of its subsidiaries or any facts likely to give rise to any litigation, claims or proceedings which might materially and adversely affect the financial position of the Company or the CAO Group, as a whole.

3. CONSENTS

CIMB-GK has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the letter containing its advice to the Independent Directors (attached to this Circular as **Appendix II**) and all references thereto, in the form and context in which they appear in this Circular.

4. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the registered office of the Company at 8 Temasek Boulevard, #31-02 Suntec Tower Three, Singapore 038988 during normal business hours from the date of this Circular up to the date of the EGM:

- (a) the Agreement;
- (b) the Letter of Undertaking;
- (c) the JVA;
- (d) the Supplemental Agreements;
- (e) the Pipeline Services Contract;
- (f) the Valuation Reports (in Chinese) and English translations of the executive summary pages of the Valuation Reports;
- (g) the undertaking letter by BPIA to vote in favour of the Ordinary Resolution;
- (h) the CIMB-GK Letters; and
- (i) the letter of consent of CIMB-GK referred to in paragraph 3 above.

LETTER FROM CIMB-GK TO THE INDEPENDENT DIRECTORS

CIMB-GK SECURITIES PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number: 198701621D)

50 Raffles Place #19-00
Singapore Land Tower
Singapore 048623

15 December 2008

To: The Independent Directors
China Aviation Oil (Singapore) Corporation Ltd
8 Temasek Boulevard
31-02 Suntec Tower Three
Singapore 038988

Dear Sirs,

THE PROPOSED ACQUISITION OF 49% INTEREST IN CHINA NATIONAL AVIATION FUEL TSN-PEK PIPELINE TRANSPORTATION CORPORATION (“TSN-PEKCL”) FROM AN INTERESTED PERSON (THE “PROPOSED ACQUISITION”)

For the purpose of this letter, terms not otherwise defined herein shall have the same meaning given as in the circular dated 15 December 2008 to the shareholders of China Aviation Oil (Singapore) Corporation Ltd (the “Circular”).

1. INTRODUCTION

On 23 April 2008 (the “**Announcement Date**”), the Board of Directors (the “**Board**”) announced (the “**Announcement**”) that China Aviation Oil (Singapore) Corporation Ltd (“**CAO**” or the “**Company**”) had entered into a sale and purchase agreement (“**Agreement**”) with China National Aviation Fuel Group Corporation (“**CNAF**”) to acquire 49% of the equity capital of TSN-PEKCL (successor-in-title to TSN-PEK) (the “**Equity Interest**”) from CNAF, for the consideration of RMB309,421,810 (the “**Consideration**”) payable by way of cash or the issue and allotment of new shares (the “**Consideration Shares**”) in the capital of the Company, or a combination of both (the “**Proposed Acquisition**”). TSN-PEKCL’s principal asset is a 185 km-long multi-oil product pipeline running from Tianjin Nanjiang Port to Beijing Capital International Airport (“**Beijing Airport**”). On 16 June 2008, TSN-PEKCL, which is wholly owned by CNAF, was registered as a limited liability company where all assets and liabilities of TSN-PEK were transferred to TSN-PEKCL as TSN-PEK’s successor-in-title. On 21 August 2008, the Directors announced that the Company and CNAF have entered into supplemental agreements both dated 21 August 2008 to amend the Agreement and the JVA (collectively “**Supplemental Agreements**”). Pursuant to the Supplemental Agreement to the Agreement dated 21 August 2008, the Company and CNAF agreed that the Consideration shall be satisfied by way of cash only. Consequently, the Company will not be issuing any Consideration Shares to CNAF.

The approval of the Shareholders (other than CNAF and its associates, who are to abstain from voting) will be required for the Proposed Acquisition for the following reason:

- (a) The aggregate consideration payable by the Company to CNAF is RMB309,421,810. The latest audited NTA of the Company as at 31 December 2007 is approximately US\$268.3 million. Based on the above figures, the consideration payable to CNAF by the Company represents approximately 16.8% of the Group's latest audited NTA as at 31 December 2007 and is an Interested Person Transaction that exceeds 5% of the Company's NTA; and

To show its support for the Proposed Acquisition, BP Investments Asia Limited ("**BPIA**"), a subsidiary of BP and a controlling shareholder of the Company has irrevocably undertaken to the Company to vote in favour of the ordinary resolution to approve the Proposed Acquisition and the transactions related thereto as set out in the notice of extraordinary general meeting on page 57 of the Circular.

In addition, an opinion of an independent financial adviser is required to be included in the Circular pursuant to Rule 921(4)(a) of the Listing Manual. In this regard, CIMB-GK has been appointed as the independent financial adviser to the Independent Directors to provide their opinion on whether the financial terms of the Proposed Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders.

This letter sets out our evaluation of the terms of the Proposed Acquisition and our advice to the Independent Directors thereon. It will form part of the Company's Circular to its shareholders dated 15 December 2008. Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meanings herein.

2. TERMS OF REFERENCE

We have been appointed to advise the Independent Directors on whether the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders.

We have confined our evaluation to the financial terms of, and other considerations (as set out in this letter) relevant to the Proposed Acquisition. We do not express any opinion on the commercial risks or merits of the Proposed Acquisition or on the future prospects of the Company and its subsidiaries (the "**Group**") or TSN-PEKCL (whether separately each on a standalone basis or as a combined entity assuming the completion of the Proposed Acquisition). Such evaluation is the responsibility of the Directors although we may draw upon their views (to the extent we deem necessary or appropriate) in arriving at our opinion. We were not involved in the Company's decision-making process or negotiations for the Proposed Acquisition. We do not express any opinion on the merits of the Proposed Acquisition relative to any alternative transaction or the methods by which the terms of the Proposed Acquisition were determined.

In the course of our evaluation, we have held discussions with the Directors, the management of the Company and its advisers and have examined publicly available information collated by us and information provided by the Company and its advisers, including those in the Circular. We have relied upon and have assumed the accuracy of such information without independent verification. We do not make any representation or warranty in respect of, and do not accept any responsibility for, the accuracy, completeness or adequacy of such information. However, we have made such enquiries and exercised our judgment as we deemed necessary on such information and have found no reason to doubt the accuracy or reliability of the information.

We have relied upon the assurances of the Directors (including those who have delegated supervision of the Circular) that they have taken reasonable care to ensure that the facts stated

and opinions expressed in the Circular are true, complete and accurate in all material respects and have been stated after due care and enquiry. The Directors have confirmed to us, that to the best of their knowledge and belief, all material information relating to the Group, TSN-PEKCL and the Proposed Acquisition have been disclosed to us, that such information is true, complete and accurate in all material respects and there is no other information the omission of which would cause the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors have jointly and severally accepted such responsibility.

We have been furnished with the independent valuation report issued by Beijing Zhongfeng Appraisal Co., Ltd (the “**Valuer**”) dated 25 February 2008 and a further valuation report dated 19 June 2008 (collectively the “**Valuation Reports**”). We have placed sole reliance thereon for the valuation and/or information contained therein. We are not involved and assume no responsibility for the Valuation Reports. We have not made any independent verification of the matters or basis set out in the Valuation Reports.

Our evaluation and opinion in this letter are based upon market, economic, industry, monetary, regulatory, socio-political, and other conditions prevailing on, and the information available to us as at 3 December 2008 (“**Latest Practicable Date**”). Such conditions may change significantly over a short period of time. Accordingly, our evaluation and opinion in this letter do not take into account information, events or conditions arising after the Latest Practicable Date. Our advice should be considered in the context of the entirety of this letter and the Circular.

In rendering our advice, we have not had regard to the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any individual Shareholder. Any Shareholder who requires specific advice in the context of his specific investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Company has been separately advised by other advisers in the preparation of the Circular (other than this letter). We were not involved in the preparation and verification of the Circular (other than this letter). We take no responsibility for, and express no views, express or implied, on the contents of the Circular (other than this letter).

3. THE PROPOSED ACQUISITION

Information on the Proposed Acquisition is set out in Section 2 of the Circular. Shareholders are advised to read Section 2 of the Circular carefully.

We highlight the following in respect of the information on the Proposed Acquisition and some of the key terms of the Agreement:–

(a) Background

On 5 December 2005, the Company announced a restructuring plan to rehabilitate itself as a going concern (the “**Restructuring Plan**”). As part of the Company’s rehabilitation efforts pursuant to the Restructuring Plan, it is proposed that the Company acquire 49% of the equity capital of TSN-PEKCL (“**Equity Interest**”).

(b) Principal terms of the Proposed Acquisition

Principal terms of the Proposed Acquisition are set out in Section 2.5 of the Circular. **Shareholders are advised to read Section 2.5 of the Circular carefully.**

(c) Joint Venture Agreement

In connection with the Proposed Acquisition and in accordance with the requirements of PRC law, the Company and CNAF have also entered into a joint venture agreement dated 23 April 2008 (“**JVA**”) to govern their relationships as Shareholders *inter se*. All rights and obligations under the JVA will be enforceable upon approval for the Enterprise Joint Venture (“**EJV**”) by the relevant PRC authority. Salient terms of the JVA are set out in Section 3 of the Circular.

(d) Supplemental Agreements

On 21 August 2008, the Directors announced that the Company and CNAF have entered into supplemental agreements both dated 21 August 2008 to amend the Agreement and the JVA.

(e) Risk Factors

Risk factors of the Proposed Acquisition are set out in Section 6 of the Circular. Shareholders are advised to read Section 6 of the Circular carefully.

4. INFORMATION ON TSN-PEK AND TSN-PEKCL

Information on TSN-PEK and TSN-PEKCL is set out in Section 2.6 of the Circular. Financial information on TSN-PEK is set out in Section 2.8 of the Circular. **Shareholders are advised to read Sections 2.6 and 2.8 of the Circular carefully.**

5. EVALUATION OF THE PROPOSED ACQUISITION

In the course of our evaluation of whether the Proposed Acquisition is on normal commercial terms and not prejudicial to the interests of the Company’s Shareholders, we have considered, *inter alia*, the following factors:

- (a) The rationale for the Proposed Acquisition;
- (b) The financial terms of the Proposed Acquisition;
- (c) The proforma financial effects of the Proposed Acquisition; and
- (d) Other relevant considerations which have a significant bearing on our assessment.

5.1 THE RATIONALE FOR THE PROPOSED ACQUISITION

We have reviewed the rationale for and benefits of the Proposed Acquisition as set out in Section 2.7 of the Circular.

5.2 ASSESSMENT OF THE FINANCIAL TERMS OF THE PROPOSED ACQUISITION

Methodology

In our assessment of the financial terms of the Proposed Acquisition, we have considered the following factors:

- (a) The purchase consideration;
- (b) The Valuation Reports prepared by the Valuer;
- (c) The historical price performance of the Company;
- (d) Valuation ratios of selected listed companies comparable to TSN-PEKCL; and
- (e) The comparative acquisition offer analysis.

We wish to highlight that the figures used in our financial assessment have been extracted where available and/or applicable, from Bloomberg, the Circular, annual reports of the comparable companies and other publicly available sources. We make no representations or warranties, express or implied, as to the accuracy or completeness of such information.

General bases and assumptions

We have relied on the following general bases in our analysis:

- (i) The issued and paid-up share capital of the Company as at the Latest Practicable Date was approximately US\$215.57 million divided into 722,820,537 issued ordinary shares (“Shares”);
- (ii) As at the Latest Practicable Date, there are no outstanding instruments convertible into, or rights to subscribe for, or options in respect of securities which carry voting rights in the capital of the Company; and
- (iii) The market prices and trading statistics of all securities as well as foreign exchange rates used in this letter have been extracted from Bloomberg unless otherwise stated.

Valuation ratios

We have applied the following valuation ratios in our analysis:

Valuation ratio	General description
P/NTA	: “P/NTA” or “price-to-NTA” ratio illustrates the ratio of the market price of a company’s shares relative to its historical book NTA per share as recorded in its financial statements. The NTA figure provides an estimate of the value of a company assuming the sale of all its tangible assets, the proceeds which are first used to settle its liabilities and obligations with the balance available for distribution to its shareholders. Comparisons of companies using their book NTAs are affected by differences in their respective accounting policies, in particular their depreciation and asset valuation policies.
EV/EBITDA	: “EV” or “enterprise value” is the sum of a company’s market capitalisation, preferred equity, minority interests, short and long term debt less its cash and cash equivalents. “EBITDA” stands for historical earnings before interest, tax, depreciation and amortisation expenses, inclusive of share of associates’ and joint ventures’ income. The EV/EBITDA ratio illustrates the ratio of the market value of a company’s business relative to its historical pre-tax operating cashflow performance, without regard to the company’s capital structure.
P/E	: “P/E” or “price-to-earnings” ratio illustrates the ratio of the market price of a company’s shares relative to its earnings per share. The P/E ratio is affected by, <i>inter alia</i> , the capital structure of a company, its tax position as well as its accounting policies.

5.2.1 The Purchase Consideration

The Consideration is RMB309,421,810 and will be satisfied either (a) in cash; or (b) by the issue and allotment of Consideration Shares at S\$1.6128 per Share to CNAF; or (c) by a combination of cash and the issue and allotment of Consideration Shares to CNAF. As at the Latest Practicable Date, based on a currency exchange rate of RMB1 = S\$0.2224, the consideration is S\$68.8 million.

Pursuant to the Supplemental Agreement to the Agreement dated 21 August 2008, the Company and CNAF agreed that the Consideration shall be satisfied by way of cash only. Consequently, the Company will not be issuing any Consideration Shares to CNAF. The Consideration will be funded using the Company's internal resources.

The Consideration was arrived at after arm's length negotiations between the Company and CNAF on a "willing buyer and willing seller" basis, taking into account a valuation of TSN-PEKCL's operating assets at RMB631.5 million.

5.2.2 The Valuation Report prepared by the Valuer

In accordance with PRC regulatory requirements relating to the disposal of State-owned assets, CNAF commissioned a valuation report dated 25 February 2008 ("**First Valuation Report**") and a further valuation report dated 19 June 2008 ("**Second Valuation Report**") both issued by the Valuer. The First Valuation Report and the Second Valuation Report both value, as at 31 August 2007 and 31 December 2007 respectively, the entire equity capital of TSN-PEKCL at RMB803.2 million on a discounted cash flow basis, assuming a lifespan of 20 years at discount rate of 11%. The Pipeline's assumed lifespan of 20 years was arrived at based on the expected lifespan of the Pipeline of 30 years, less the number of years for which the Pipeline has been in operation (10 years). The discount rate of 11% was determined using the weighted average cost of capital ("**WACC**") model, which was adopted pursuant to the PRC requirements for asset evaluations for State-owned assets. The WACC model takes into account factors such as the cost of equity, cost of debt after tax, market value of TSN-PEKCL's equity and market value of TSN-PEKCL's debts.

After deducting TSN-PEKCL's non-operating and surplus assets of approximately RMB171.8 million (which are to be returned to CNAF via a capital reduction procedure prior to Completion) and based on the valuation report, TSN-PEKCL's net valuation would amount to approximately RMB631.5 million. Under the letter of undertaking dated 23 April 2008 issued by CNAF to CAO in relation to the Proposed Acquisition (the "**Letter of Undertaking**"), CNAF has undertaken to CAO that it will exercise its voting rights to cause TSN-PEKCL to complete a capital reduction procedure prior to Completion such that an amount of RMB171.8 million (representing the non-operating and surplus assets) will be returned to CNAF. According to the business license of TSN-PEKCL dated 16 June 2008 issued by Tianjin Municipal Administration for Industry and Commerce, the capital reduction has been completed and the registered capital of TSN-PEKCL has been reduced from RMB321 million to RMB149 million.

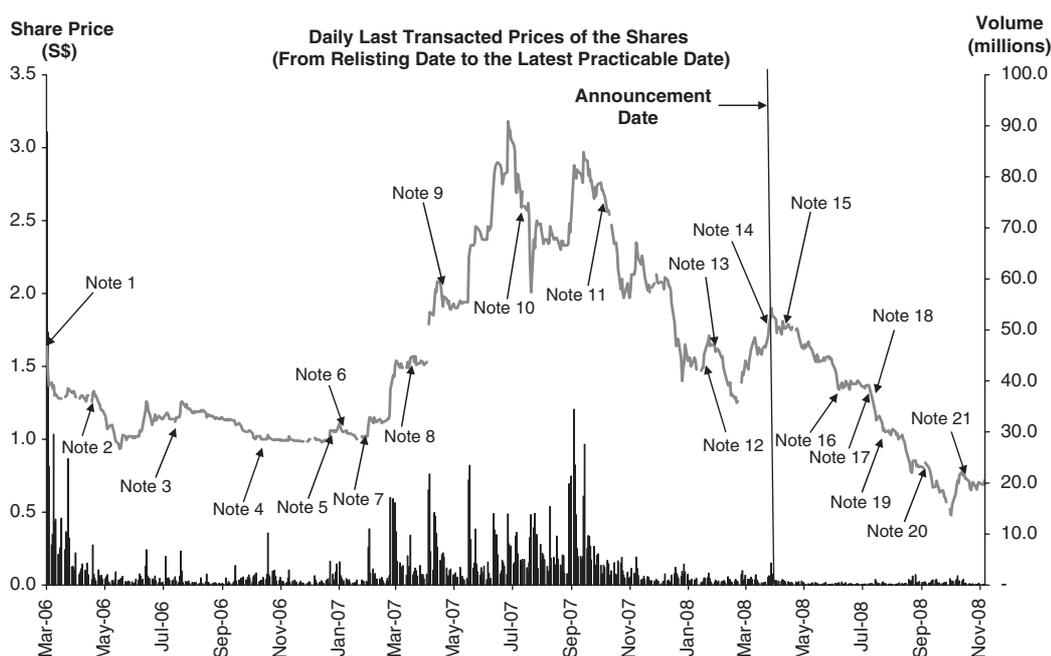
The Valuation reports were obtained by CNAF in compliance with existing PRC laws which in this case required that such a valuation be carried out by a qualified PRC evaluation firm on the value of the assets held by TSN-PEKCL. Typically in such cases, it is the current practice in the PRC that the PRC Party (in this instance CNAF) commissions the required valuations. As at the Latest Practicable Date, CNAF has not commissioned for an update on the valuation of TSN-PEKCL.

As the Second Valuation Report values TSN-PEKCL as at 31 December 2007, the valuation will not be given much weightage in our assessment in the light of the global monetary, industry, market, economic and other relevant changes since then.

5.2.3 Historical Share Price Performance of the Company

Market price represents the value of a company as perceived by the stock market and subject to market efficiency and rationality, reflects all information relevant to a company such as its business directions, plans and strategies, expected financial performance, future prospects and potential growth and is susceptible to, *inter alia*, investor sentiment and market speculation.

The following chart shows the daily trading volume and closing price of the Share from the Relisting Date as of 29 March 2006 to the Latest Practicable Date.



Source: Bloomberg

Notes:–

- (1) On 28 March 2006, the Company announced its lifting of suspension and resumption of trading of shares on Main Board of SGX-ST on 29 March 2006.
- (2) On 15 May 2006, the Company released its unaudited results for the 3 months ended 31 March 2006 and recorded positive net asset position on conclusion of the restructuring plan.
- (3) On 14 August 2006, the Company released its unaudited half-year results for the period ended 30 June 2006 and recorded net profit of S\$14.8 million.
- (4) On 14 November 2006, the Company released its unaudited results for the third quarter ended 30 September 2006 and recorded net profit of S\$12.5 million on the back of resumption of jet fuel procurement activities as principal.
- (5) On 24 January 2007, the Company announced the divestment of the Group's 5% interest in Compania Logistica De Hidrocarburos CLH, S.A. ("**CLH**") for an aggregate consideration of €171 million.
- (6) On 29 January 2007, the Company announced the extension of memorandum of understanding ("**MOU**") between the Company, China National Aviation Fuel Holding Company and BP Investments Asia Limited in relation to the possible injection of their respective operating assets to be identified and mutually agreed, which may be synergistic and complementary to the Company's business, into the Company with a view to increasing its assets base, earning capacity and prospects. In addition, the Board announced that the Company had signed a share sale and purchase agreement dated 29 January 2007 to sell 41% of its 80% stake in China Aviation Oil Xinyuan Petrochemicals Co. Ltd. for a total consideration of RMB20.5 million.
- (7) On 27 February 2007, the Company released its unaudited full year results for the period ended 31 December 2006 ("**FY2006**"). The Group's profit before tax was S\$374.4 million in FY2006 compared to S\$34.5 million for the financial year 2005 ("**FY2005**"). If the waiver of debts by creditors of S\$311.6 million is excluded, the Group's profit after tax in FY2006 would be S\$57.3 million, representing an increase of S\$27.9 million as compared to S\$29.4 million achieved in FY2005.
- (8) On 17 April 2007, the Company announced the completion of the proposed divestment of CLH.
- (9) On 15 May 2007, the Company released its unaudited results for the first quarter ended 31 March 2007.
- (10) On 14 August 2007, the Company released its unaudited half-year results for the period ended 30 June 2007. The Group's net profit in 2Q 2007 was US\$5.4 million, excluding divestment gain from CLH, which was lower than those recorded in the same period of last financial year. CAO also announced that CNAF had indicated that it would propose an asset for injection for CAO's consideration before the MOU expires in on 28 October 2007.

- (11) On 5 November 2007, the Company released its unaudited results for the third quarter ended 30 September 2007 ("**3Q 2007**") and reported that the Group recorded net profit of US\$10.5 million in 3Q 2007, compared to US\$7.6 million for the same period last year, representing an increase of 39%.
- (12) On 14 February 2008, the Company announced its re-admission to the Global Trader Programme status by International Enterprise Singapore for a period of five years from 1 January 2008.
- (13) On 28 February 2008, the Company released its unaudited full-year results for the period ended 31 December 2007. The Group recorded net profit of US\$168.3 million in FY2007, which included a net divestment gain of US\$134.8 million from the divestment of CLH. Excluding exceptional gains in both FY2006 and FY2007, net profit for FY2007 was US\$33.5 million, compared to US\$36.2 million in FY2006, representing a decline of about 7%.
- (14) On 23 April 2008, the Company announced the Proposed Acquisition.
- (15) On 9 May 2008, the Company released its unaudited results for the first quarter ended 31 March 2008 ("**1Q 2008**"). The Group's profit after tax was US\$9.0 million for 1Q 2008 compared to US\$5.6 million for the same period last year. This was mainly attributable to the contribution by its associate, Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd, as well as higher jet fuel procurement volume, exchange gain and lower operating expenses.
- (16) On 10 July 2008, the Company announced that an extraordinary general meeting will be held on 6 August 2008, for the purpose of considering and, if thought fit, passing (i) the resolution on proposed alterations to the articles of association of the Company and (ii) the resolution on the proposed adoption of a new shareholders' mandate for interested person transactions.
- (17) On 5 August 2008, the Company released its unaudited half-year results for the period ended 30 June 2008 ("**1H 2008**"). The Group's profit attributable to Shareholders was US\$26.5 million for 1H 2008 compared to US\$145.9 million for the same period last year. Excluding the net gain on disposal of CLH, the Group's profit attributable to Shareholders would be US\$11.1 million in 1H 2007.
- (18) On 6 August 2008, the Company announced that at the extraordinary general meeting of the Company, all resolutions relating to the matters set out in the Notice of extraordinary general meeting dated 10 July 2008 were duly passed.
- (19) On 21 August 2008, the Company announced that the Company and CNAF had entered into supplemental agreements to (a) amend and supplement the sale and purchase agreement and (b) amend and supplement the joint venture agreement in relation to the Proposed Acquisition.
- (20) On 30 September 2008, the Company announced that it will commence petrochemicals trading business from the fourth quarter of financial year 2008.
- (21) On 14 November 2008, the Company released its unaudited results for the third quarter ended 30 September 2008 ("**3Q 2008**"). The Group's profit attributable to Shareholders was US\$15.3 million for 3Q 2008 compared to US\$10.5 million for the same period last year.

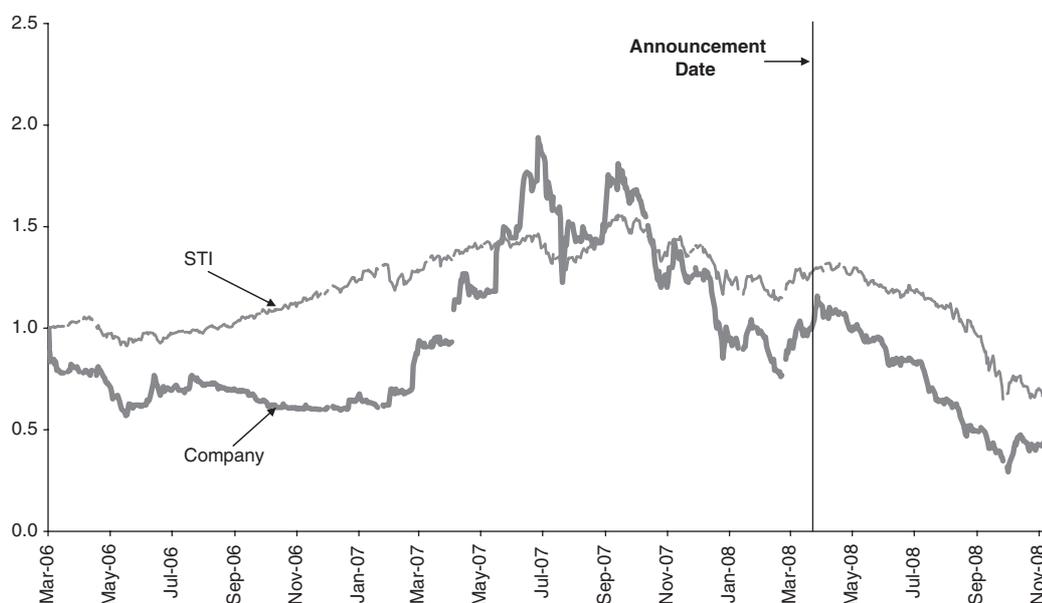
We note the following on the data in the chart above:

- (i) Over the period from the Relisting Date to the Announcement Date, the market price of the Shares started trending upwards from about March 2007 (after the release of the FY2006 unaudited full year results) up until about July 2007. Since July 2007, the market price has generally trended downwards up until the Announcement Date. Over this period, the market price traded at between a low of S\$0.92 and a high of S\$3.28, with an average daily trading volume of 3,518,392 Shares.
- (ii) For the one-month period prior to the Announcement Date, the Shares traded between a low of S\$1.29 and a high of S\$1.84; and
- (iii) As at the Latest Practicable Date, the last traded market price of the Shares is S\$0.72, which is below the last transacted price of the Shares of S\$1.82 prior to the Announcement.

5.2.4 Relative Share Price Performance

To gauge the market price performance of all the issued ordinary shares of the Company relative to the general performance of the Singapore equity market, we have compared the normalised market price movement of the Shares against that of the Straits Times Index (“STI”) for the period between the Relisting Date and the Latest Practicable Date, as illustrated below.

**Normalised Market Price Movements of the Shares Against STI
(From Relisting Date to the Latest Practicable Date)**



Source: Bloomberg

Based on the above chart, on a normalised basis, it appears that from 29 March 2006 till around the Latest Practicable Date, the market price of the Shares has generally underperformed the STI except during the period from around June 2007 to around November 2007.

The movements in the closing prices of the Shares and the STI between the market day of the Announcement, and the Latest Practicable Date are as follows:

	Last Transacted Price prior to the Announcement	Latest Practicable Date	Percentage Change (%)
CAO (S\$)	1.82	0.72	(60.4)
STI	3,193.84	1,640.57	(48.6)

Source: Bloomberg

The market price of the Shares has decreased by approximately 60.4 per cent. from the market day of the Announcement to the Latest Practicable Date. Over the same period, the STI has decreased by approximately 48.6 per cent..

5.2.5 Valuation Ratios of Selected Listed Companies comparable to TSN-PEKCL

For the purpose of comparison and after discussion with the Directors and the management of the Company, we have also assessed the reasonableness of the Consideration for the Proposed Acquisition by comparing the financial statistics for the Proposed Acquisition with selected listed companies whose business activities are, in our view, broadly comparable or similar to the core business activities of TSN-PEKCL (the “**Comparable Companies**”).

It should be noted that there may not be any company that is directly comparable to TSN-PEKCL in terms of business activities, size of operations, asset base, geographical spread of activities, geographical markets, track record, future prospects and other relevant criteria. Any comparison made with respect to the Comparable Companies is therefore intended to serve as an illustrative guide only.

The selected valuation statistics of the Comparable Companies are based upon their closing prices on the Latest Practicable Date while those of TSN-PEKCL are implied in the financial terms of the Proposed Acquisition. Such comparisons are affected by differences in their accounting policies. Our analysis has not attempted to adjust for such differences.

The following is the list of Comparable Companies, together with a brief description of their principal activities:

	Country	Principal Activities
Plains All American Pipeline, L.P. (“ Plains ”)	US	Plains is involved in interstate and intrastate crude oil pipeline transportation and crude oil terminaling storage activities, as well as gathering and marketing activities. Plains also owns and operates a seasonally heated, common carrier crude oil pipeline and an oil gathering system.
Jadranski Naftovod d.d. (“ Jadranski ”)	Croatia	Jadranski transports crude oil and operates the tanker port of Omisalj and the Adriatic Pipeline System.
NuStar Energy L.P. (“ NuStar ”)	US	NuStar transports and stores crude oil and refined products, and operates pipelines, terminals, and oil storage facilities. It operates in North America, the United Kingdom and Europe.
Sunoco Logistics Partners L.P. (“ SLP ”)	US	SLP acquires, owns, and operates a group of refined product and crude oil pipelines and terminal facilities.
Enbridge Energy Partners L.P. (“ EnBridge ”)	US	EnBridge transports crude oil and natural gas liquids to refineries in the Midwestern United States and eastern Canada.
TransMontaigne Partners, L.P. (“ TransMontaigne ”)	US	TransMontaigne provides integrated terminalling, storage, pipeline and related services for companies engaged in the distribution and marketing of refined petroleum products and crude oil.
Kinder Morgan Energy Partners LP (“ KMP ”)	US	KMP owns and operates product pipelines systems, natural gas transportation pipelines, gathering and storage facilities, bulk terminal facilities in the United States.

	Country	Principal Activities
Magellan Midstream Partners, L.P. (“MMP”)	US	MMP owns and operates pipelines systems and terminals for the storage, transportation and distribution of refined petroleum products and ammonia in the mid-continent region of the United States.
Inter Pipeline Fund LP-A (“Inter Pipeline”)	Canada	Inter Pipeline owns and operates several crude oil feeder systems. Its pipelines are in southern Alberta and southwestern Saskatchewan, both located in Canada.

Source: Bloomberg, respective annual reports, announcements of the Comparable Companies and the Company

We set out in the table below the financial ratios of the Company and the Comparable Companies as at the Latest Practicable Date.

	P/E	Estimated P/E	P/NTA	EV/EBITDA
Plains	13.0	11.2	1.7	12.1
Jadranski	21.7	n.a	0.4	4.3
NuStar	12.0	8.7	1.5	11.8
SLP	12.5	8.7	2.0	9.1
EnBridge	10.4	9.9	0.6	10.4
TransMonTaigne	8.6	6.1	0.5	7.2
KMP	n.m	19.7	2.5	14.2
MMP	11.2	9.5	2.1	8.2
Inter Pipeline	n.m	11.8	2.9	13.5
High	13.0	19.7	2.9	14.2
Low	8.6	6.1	0.4	4.3
Median	11.6	9.7	1.7	10.4
Mean	11.3	10.7	1.6	10.1
CAO (Latest Practicable Date)	10.4	n.a	1.2	0.9
TSN-PEKCL (based on the Consideration)	16.7	13.4	4.1	10.7

Source: Bloomberg, respective annual reports, announcements of the Comparable Companies and the Company

Notes:–

- (1) The P/E and EV/EBITDA ratios of TSN-PEKCL are based on the earnings for the financial year ended 31 December 2007. The P/E and EV/EBITDA ratios of the Comparable Companies are based on their respective earnings as set out in their latest available published full-year financial statements as at the Latest Practicable Date and have been adjusted to exclude exceptional items. The estimated P/E ratio of the Comparable Companies is based on analysts’ estimates for their respective financial period ending 2009. Such analysts’ estimates were quoted by Bloomberg as at the Latest Practicable Date. In addition, the estimated P/E ratio of TSN-PEKCL is based on the Guaranteed Profit (as defined below in this Letter) of RMB47.28 million.
- (2) The P/NTA ratios of the Comparable Companies are based on their respective NTA values as set out in their latest available published financial statements as at the Latest Practicable Date.
- (3) In computing the high, low, median and mean ratios of P/E ratio, Jadranski has been excluded as an outlier.
- (4) n.m denotes not meaningful.
- (5) n.a denotes not available.

Based on the Consideration paid in relation to the Proposed Acquisition, we note that:

- (i) The P/E ratio of TSN-PEKCL as implied by the Consideration is above the range of the P/E ratios of the Comparable Companies. In addition, the P/E ratio of TSN-PEKCL is above the P/E ratio of CAO as at the Latest Practicable Date.
- (ii) The estimated P/E ratio of TSN-PEKCL as implied by the Consideration is above the mean and median of the estimated P/E ratios of the Comparable Companies but is within the range of the estimated P/E ratios of the Comparable Companies as at the Latest Practicable Date.
- (iii) The P/NTA ratio of TSN-PEKCL as implied by the Consideration is above the range of the P/NTA ratios of the Comparable Companies and the P/NTA ratio of CAO as at the Latest Practicable Date. We also note that the book value of TSN-PEKCL in our computation has not been revalued and that the Consideration is equal to the valuation of TSN-PEKCL by the Valuer appointed by CNAF.
- (iv) The EV/EBITDA ratio of TSN-PEKCL as implied by the Consideration is marginally above the mean and median of the EV/EBITDA ratios of the Comparable Companies but is within the range of the EV/EBITDA ratios of the Comparable Companies. In addition, the EV/EBITDA ratio of TSN-PEKCL is above the EV/EBITDA ratio of CAO as at the Latest Practicable Date.

As the Comparable Companies and TSN-PEKCL may use differing capital structure to fund their respective operations and the business of pipeline transportation requires a high level of initial capital investment, we are of the opinion that the EV/EBITDA ratio is the most appropriate valuation ratio for comparison as it illustrates the market value of a company's business relative to its historical pre-tax operating cash flow performance, without regard to the company's capital structure and depreciation policy.

5.2.6 The Comparable Acquisition Offer Analysis

In considering the reasonableness of the Consideration for the Proposed Acquisition, we may also make reference to the terms of a recent comparable mergers and acquisition transaction ("**Comparable Transaction**"). We have only been able to find one transaction which we deem to be comparable, but it is by no means exhaustive and is for illustration purposes only.

Date of Announcement	Target Company	Acquirer	EV/EBITDA	Enterprise Value
5 March 2007	Corridor Pipeline System	Inter Pipeline	15.0	CAD760.0 million ⁽¹⁾
23 April 2008	TSN-PEKCL (based on the Consideration)	CAO	10.7	RMB626.1 million

Source: Announcements of the respective companies.

Note:—

(1) CAD denotes Canadian Dollars.

At the Consideration, we note that the EV/EBITDA ratio for the Proposed Acquisition is below the EV/EBITDA ratio for the Comparable Transaction.

Our Comparable Transaction analysis is based on data compiled from publicly available sources. The transaction must be judged on its own commercial and financial merits. Any premium that an acquirer pays in any particular transaction depends on various factors such as the potential synergy that the acquirer can gain by acquiring the target, the presence of competing bids, prevailing market conditions, attractiveness of the target business and assets, size of consideration and existing and desired level of control in the target. Hence, the comparison of the Proposed Acquisition with the Comparable Transaction is for illustration purpose only. Conclusions drawn from the comparisons made may not reflect any perceived market valuation of the Company.

5.3 PROFORMA FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

Full text of the proforma financial effects of the Proposed Acquisition is set out in Section 2.11 of the Circular. **Shareholders are advised to read Section 2.11 of the Circular carefully.**

For convenience, we have extracted certain parts of the financial effects of the Proposed Acquisition for ease of reference.

(a) Effect on NTA per share

The effects of the Proposed Acquisition on the consolidated NTA per share of the Company as at 31 December 2007, assuming that the Proposed Acquisition had been effected at the end of the financial year, are summarised below:

As at 31 December 2007	Before the Proposed Acquisition	After the Proposed Acquisition
NTA (US\$) — including gain on CLH ¹	268,313,246	268,031,560
Number of shares issued	722,820,537	722,820,537
NTA per share (US cents)	37.12	37.08

Note:

- (1) CAO sold its 5% holding in CLH, an energy distribution company in January 2007. Gain from the sale is one-off gain.

The NTA value of the Group includes the fair value of the net assets acquired of TSN-PEK which is determined on a provisional basis.

(b) Effect on EPS

Assuming that the Proposed Acquisition had been effected at the beginning of the financial year 2007 and based on the Company's audited consolidated financial statements for the financial year ended 31 December 2007, the *pro forma* effects on the consolidated earnings of the Company are as follows:

As at 31 December 2007	Before the Proposed Acquisition	After the Proposed Acquisition
Earnings (US\$) — including gain on CLH ¹	168,333,972	171,033,939
Number of shares issued	722,820,537	722,820,537
Earnings per share (US cents)	23.29	23.66

As at 31 December 2007	Before the Proposed Acquisition	After the Proposed Acquisition
Earnings (US\$) — excluding gain on CLH ¹	33,533,892	36,233,859
Number of shares issued	722,820,537	722,820,537
Earnings per share (US cents)	4.64	5.01

Note:—

- (1) CAO sold its 5% holding in CLH, an energy distribution company in January 2007. Gain from the sale is one-off gain.

(c) Effect on Share Capital

As the Consideration is to be satisfied fully in cash, the Proposed Acquisition is not expected to have any impact on the current share capital of the Company.

(d) Effect on Gearing

As the Consideration is to be fully funded using the internal cash resources of the Company, the Proposed Acquisition is not expected to have any impact on the gearing of the Company.

We note that in respect of the financial effects of the Proposed Acquisition, the EPS (excluding the gain on CLH) will increase by approximately 8.0% from 4.64 US cents to 5.01 US cents. NTA of the Company (including the gain on CLH) will decrease by approximately 0.1% from 37.12 US cents to 37.08 US cents.

5.4 OTHER RELEVANT FACTORS

5.4.1 We note that CNAF has given the following undertakings to the Company under the Agreement:

- (a) it will not commit, allow or procure any act or omission which would result in the sale, transfer or disposal of any part of TSN-PEKCL's undertakings or assets or property, or purchase, sale, transfer, disposal, lease or licence of any real property or any interest therein, other than in the ordinary course of business;
- (b) it will procure the State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**")'s waiver of the requirement to submit the Equity Interest to a tender procedure in relation to any transfer of the Equity Interest;
- (c) it will repay all loan principal and interest amounts that are due and payable to TSN-PEKCL prior to the registration of TSN-PEKCL as a Sino-foreign equity joint venture with the Tianjin Municipal Administration of Industry and Commerce;
- (d) it will assist TSN-PEKCL in all procedures to register TSN-PEKCL as a foreign-invested enterprise with the relevant PRC government authorities;
- (e) it will assist CAO in making the necessary filings and applications for the approval and registration of the alteration of shareholders in TSN-PEKCL in compliance with the relevant legal procedures;
- (f) it will exercise its voting rights in TSN-PEKCL to constitute a board of directors comprising of 5 directors, 3 of whom are to be nominated by CNAF and 2 of whom are to be nominated by CAO; and
- (g) CNAF will indemnify the Company against any losses caused by any taxation liabilities incurred by TSN-PEKCL prior to or on Completion.

5.4.2 We note that when the Proposed Acquisition was announced on 23 April 2008, it was disclosed, *inter alia*, that CNAF was guaranteeing that TSN-PEKCL would achieve a net profit after tax of not less than RMB47.28 million for FY2008. In light of the fact that the Completion is expected to take place in the year 2009, it has been agreed between CNAF and CAO that the profit guarantee for FY2008 is to be replaced by a new letter of undertaking on TSN-PEKCL's net profit after tax for FY2009.

5.4.3 We also note that under the Letter of Undertaking, CNAF has guaranteed to CAO that the net profit after tax of TSN-PEKCL in respect of FY2009 shall not be less than RMB47.28 million ("**Guaranteed Profit**"). If TSN-PEKCL does not achieve the Guaranteed Profit, CAO will have the right to claim compensation in cash from CNAF for the difference between the Guaranteed

Profit and TSN-PEKCL's actual audited financial results for FY2009 pro rata its shareholding in TSN-PEKCL. The cash compensation is payable by CNAF within 15 Business Days of CAO making its claim. Based on the historical performance and the future prospects of TSN-PEKCL's business, the Board is of the view that the Guaranteed Profit is realistic and further, in the event that the Guaranteed Profit is not reached, the compensation claimed is adequate.

- 5.4.4 To ensure that the Company is able to realize the earnings of TSN-PEKCL, CNAF has agreed in the Letter of Undertaking to exercise its voting rights in TSN-PEKCL such that it will cause TSN-PEKCL to distribute not less than 90% of its annual net profits after tax for each financial year (after deducting tax, any amounts required to make good past accumulated losses and any amounts to be transferred to TSN-PEKCL's statutory reserves).
- 5.4.5 Under the Letter of Undertaking, CNAF has undertaken to CAO that it will exercise its voting rights to cause TSN-PEKCL to complete a capital reduction procedure prior to Completion such that an amount of RMB171.8 million (representing the non-operating and surplus assets) will be returned to CNAF. As a result, the EJV established will own only the operating assets of TSN-PEKCL. According to the business license of TSN-PEKCL dated 16 June 2008 issued by Tianjin Municipal Administration for Industry and Commerce, the capital reduction has been completed and the registered capital of TSN-PEKCL has been reduced from RMB321 million to RMB149 million.
- 5.4.6 We note that CNAFCL is the sole supplier of aviation fuel to Beijing Airport and Tianjin Binhai International Airport ("**Tianjin Airport**"), which are respectively the termination and supply point on the Pipeline. CNAFCL is currently the sole customer of TSN-PEKCL. Given the significance of the Pipeline Services Contract, the Pipeline Services Contract should be considered as an integral part of the Proposed Acquisition.
- 5.4.7 In order for TSN-PEKCL to have an assured revenue flow and to facilitate the achievement of the Guaranteed Profit, CNAFCL, another subsidiary of CNAF, has entered into the Pipeline Services Contract with TSN-PEK on 7 May 2008 for a 5-year term effective from 1 January 2008. Under the Pipeline Services Contract, both CNAFCL and TSN-PEK agree to transfer all rights and obligations of TSN-PEK under the Pipeline Services Contract to TSN-PEKCL (as TSN-PEK's successor-in-title) after TSN-PEKCL has been registered as a limited liability company. Upon expiry, the Pipeline Services Contract shall be automatically renewed for a further term of 5 years. In the event that there are material changes in the laws, regulations or industrial policies of PRC which the parties mutually agree might result in a material adverse impact on either TSN-PEKCL or CNAFCL, both TSN-PEKCL and CNAFCL shall be entitled to re-negotiate the terms of the Pipeline Services Contract.
- 5.4.8 Under the Pipeline Services Contract, CNAFCL has agreed that it shall, except due to circumstances beyond its control, utilise the entire capacity of the Pipeline of 3.25 million tons per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of the Pipeline Services Contract. TSN-PEKCL transported a cumulative total of 2.3 million tons of aviation fuel in FY2007 to achieve an audited net profit after tax (including a non-recurring item) of RMB46.97 million. The abovementioned non-recurring item refers to (i) a one-off reimbursement of RMB14.8 million by Tianjin Airport Logistics Office, and (ii) loss on disposal of pipeline of RMB1.2 million for relocating its pipeline to make way for the project site of the Airbus A320 assembly line in the Tianjin Airport.
- 5.4.9 TSN-PEKCL provides pipeline transportation services to CNAFCL at a pipeline price that is bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, with reference to the pipeline transportation prices prescribed by the State Development and Planning Commission. The price for the provision of pipeline transportation services to CNAFCL is determined annually. Currently, pipeline transportation services are charged by TSN-PEKCL to CNAFCL at the rate of RMB50 for every ton of jet fuel transported through the Pipeline to Beijing Airport.

The price of RMB50 is higher than the pipeline transportation prices currently prescribed by the State Development and Planning Commission. In addition, both TSN-PEKCL and CNAFCL have a right to call for the review of the price for the provision of pipeline transportation services to CNAFCL upon the occurrence of any event that materially affects the business of TSN-PEKCL and/or CNAFCL. Any changes in pricing will require the unanimous approval of TSN-PEKCL's board of directors. Further details and terms of the Pipeline Services Contract are set out in Appendix III of the Circular.

- 5.4.10 As TSN-PEKCL will on Completion become an "associated company" of CAO, and by virtue of CNAFCL being a subsidiary of CNAF and CNAF being a Controlling Shareholder of the Company, it is to be noted that all transactions to be entered into between TSN-PEKCL and CNAFCL after Completion (including transactions pursuant to the Pipeline Services Contract) will be considered as "interested person transactions" for the purposes of Chapter 9 of the Listing Manual.
- 5.4.11 Under the Agreement, CNAF will, on Completion grant the Company the Put Option to require CNAF to purchase the Equity Interest, exercisable by the Company at any time after 5 years from the date of Completion, on the same valuation of TSN-PEKCL at RMB631,473,081. In the event the Put Option is exercised by the Company, the consideration ("**Saleback Consideration**") shall be RMB309,421,810 less the accumulated dividends received by the Company from TSN-PEKCL. Payment of the Saleback Consideration shall be made in cash, in US currency (US\$). The Saleback Consideration was arrived at after arm's length negotiations between the Company and CNAF on a "willing buyer and willing seller" basis. It is fixed at the same price as the Consideration so as to allow the Company to resell the Equity Interest to CNAF at the same price it acquired the Equity Interest.
- 5.4.12 The Put Option is being granted to the Company as an additional assurance for the Company's investment in the Equity Interest, in addition to the profit guarantee granted by CNAF. The Saleback Consideration will protect the value of the Company's investment in TSN-PEKCL by allowing the Company to divest the Equity Interest at the same price at which it acquired the Equity Interest even if the value of the Equity Interest was to be lower. In the event the Company seeks to dispose of the Equity Interest (whether pursuant to the Put Option or otherwise), the Company will commission a valuation report on the Equity Interest and the Board will announce the reasons and rationale for such exercise.
- 5.4.13 We note the risk factors disclosed in Section 6 of the Circular and would like to highlight that following the completion of the Proposed Acquisition, any subsequent disposal of the Company's stake in TSN-PEKCL will be subject to such disposal obtaining the necessary approvals of the relevant PRC governmental authorities.
- 5.4.14 We also note that the terms of the JVA (see Section 3 of the Circular for details) provide a certain level of rights and protection to the Company.
- 5.4.15 On 21 August 2008, the Directors announced that the Company and CNAF have entered into supplemental agreements both dated 21 August 2008 to amend the Agreement and the JVA. Pursuant to the Supplemental Agreement to the Agreement dated 21 August 2008, the Company and CNAF agreed that the Consideration shall be satisfied by way of cash only. Consequently, the Company will not be issuing any Consideration Shares to CNAF.
- 5.4.16 BPIA has irrevocably undertaken to the Company to vote in favour of the ordinary resolution to approve the Proposed Acquisition and the transactions related thereto as set out in the notice of extraordinary general meeting on page 57 of the Circular.

6. OPINION

In arriving at our opinion on whether the terms of the Proposed Acquisition are on normal commercial terms and whether they are prejudicial to the interests of the Company and its Shareholders, we considered the factors set out in the previous sections of this report. Our conclusions in respect of the factors considered are set out below:

(a) Rationale and Benefits for the Proposed Acquisition

We have reviewed the rationale and benefits for the Proposed Acquisition and note that the Proposed Acquisition is being made on certain bases, in particular, the following:

- (i) Notwithstanding the expiry of the MOU and in accordance with the spirit of the MOU, the Company is in the process of evaluating the possibility of acquiring synergistic assets from its major shareholders, including CNAF. In keeping with this strategy, the Company is entering into the Proposed Acquisition as it represents a synergistic investment.
- (ii) The Proposed Acquisition indirectly provides the Company with ownership of the infrastructure for jet fuel supply to the Beijing Airport and Tianjin Airport. The Pipeline, as the only underground pipeline mode of transportation of jet fuel from Tianjin Nanjiang Port to the Beijing Airport and Tianjin Airport, is presently the most cost-efficient and cost-effective means of transportation of jet fuel to Beijing Airport. Through the Proposed Acquisition, the Company can directly participate in the business of transporting jet fuel to the Beijing Airport and Tianjin Airport. The Proposed Acquisition will serve to make the Company an international energy company having an integrated supply chain for both procurement and logistics support services for jet fuel and other oil-related products.
- (iii) The Proposed Acquisition also offers the Company a rare chance to acquire part of a strategic and unique asset in the form of the Pipeline. While the Pipeline's unique nature makes it difficult to value such an asset, the fact remains that such an asset is rare and hard to find in the PRC. Further, high barriers to entry exist due to the Pipeline's unique nature, not only would similar pipelines running from Tianjin Nanjiang Port to Beijing Airport be extremely expensive to build from scratch, but the Pipeline is also a regulated asset and it would be difficult to obtain the necessary approvals to build another similar pipeline from the various regulatory authorities in the PRC.
- (iv) The Proposed Acquisition will also strengthen the Company's capability to ensure the secure supply of jet fuel on competitive terms for onward sale and supply to buyers in the PRC. Through the Proposed Acquisition, the Company will be obtaining an oil-related asset, strategic fit for the Company's oil and jet fuel business.
- (v) The Proposed Acquisition will also allow the Company to diversify its current business from purely trading into logistics as well, and further allow the Company to diversify its earnings base.

(b) Financial Assessment of the Proposed Acquisition

In reviewing the Proposed Acquisition, we have considered the following:–

- (i) The Consideration was based on the valuation of TSN-PEKCL as at 31 December 2007 of approximately RMB631.5 million. The Consideration was arrived at after arm's length negotiations between the Company and CNAF, on a "willing buyer and willing seller" basis, taking into account the valuation of TSN-PEKCL.

- (ii) There is insufficient evidence to determine conclusively whether or not the current market price of the Shares as at the Latest Practicable Date is influenced, either positively or negatively, by the Proposed Acquisition.
- (iii) Based on the Consideration paid, the P/E ratio of TSN-PEKCL is above the range of the P/E ratios of the Comparable Companies. In addition, the P/E ratio of TSN-PEKCL is above the P/E ratio of CAO as at the Latest Practicable Date.
- (iv) Based on the Consideration paid, the estimated P/E ratio of TSN-PEKCL is above the mean and median of the estimated P/E ratios of the Comparable Companies but is within the range of the estimated P/E ratios of the Comparable Companies as at the Latest Practicable Date.
- (v) Based on the Consideration paid, the P/NTA ratio of TSN-PEKCL is above the range of P/NTA ratios of the Comparable Companies and the P/NTA ratio of CAO as at the Latest Practicable Date. However, the book value of TSN-PEK in our computation has not been revalued and we note that the Consideration is equal to the valuation of TSN-PEKCL by the Valuer appointed by CNAF.
- (vi) Based on the Consideration paid, the EV/EBITDA ratio of TSN-PEKCL is marginally above the mean and median of the EV/EBITDA ratios of the Comparable Companies but is within the range of the EV/EBITDA ratios of the Comparable Companies. In addition, the EV/EBITDA ratio of TSN-PEKCL is above the EV/EBITDA ratio of CAO as at the Latest Practicable Date.
- (vii) Based on the Consideration paid, the EV/EBITDA ratio of TSN-PEKCL is below the Comparable Transaction.
- (viii) Pursuant to the Supplemental Agreement to the Agreement dated 21 August 2008, the Company and CNAF agreed that the Consideration shall be satisfied by way of cash only. Consequently, the Company will not be issuing any Consideration Shares to CNAF.

(c) **Proforma Financial Effects of the Proposed Acquisition**

We note the following potential impacts on the EPS and NTA of the Company following the Proposed Acquisition:

- (i) EPS (excluding the gain on CLH) will increase by approximately 8.0% from 4.64 US cents to 5.01 US cents. NTA of the Company (including the gain on CLH) will decrease by approximately 0.1% from 37.12 US cents to 37.08 US cents.

(d) **Other Relevant Factors**

We have also taken into consideration the other relevant factors as described in paragraph 5.4 of this letter, in particular, the following:

- (i) CNAF has guaranteed that TSN-PEKCL's net profit after tax for FY2009 shall not be less than RMB47.28 million. If TSN-PEKCL does not achieve the Guaranteed Profit, CAO will have the right to claim compensation in cash from CNAF for the difference between the Guaranteed Profit and TSN-PEKCL's actual audited financial results for FY2009 pro rata its shareholding in TSN-PEKCL. The cash compensation is payable by CNAF within 15 Business Days of CAO making its claim. Based on the historical performance and the future prospects of TSN-PEKCL's business, the Board of CAO is of the view that the Guaranteed Profit is realistic and further, in the event that the Guaranteed Profit is not reached, the compensation is adequate;
- (ii) TSN-PEKCL has a sole customer, CNAFCL. CNAFCL is the sole supplier of aviation fuel to Beijing Airport and Tianjin Airport, which are respectively the termination point and a supply point on the Pipeline. In order for TSN-PEKCL to have an assured

revenue flow and to facilitate the achievement of the Guaranteed Profit, CNAFCL has entered into the Pipeline Services Contract with TSN-PEKCL. Under the Pipeline Services Contract, both CNAFCL and TSN-PEKCL agree to transfer all rights and obligations of TSN-PEK under the Pipeline Services Contract to TSN-PEKCL after TSN-PEKCL has been registered as a limited liability company. Upon expiry, the Pipeline Services Contract shall be automatically renewed for a further of 5 years. In the event that there are material changes in the laws, regulations or industrial policies of PRC which the parties mutually agree might result in a material adverse impact on either TSN-PEKCL or CNAFCL, both TSN-PEKCL and CNAFCL shall be entitled to re-negotiate the terms of the Pipeline Services Contract;

- (iii) Under the Pipeline Services Contract, CNAFCL has agreed that it shall, except due to circumstances beyond its control, utilise the entire capacity of the Pipeline of 3.25 million tons per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of the Pipeline Services Contract. TSN-PEKCL transported a cumulative total of 2.3 million tons of aviation fuel in FY2007 to achieve an audited net profit after tax (including a non-recurring item) of RMB46.97 million. The abovementioned non-recurring item refers to (i) a one-off reimbursement of RMB14.8 million by Tianjin Airport Logistics Office, and (ii) loss on disposal of pipeline of RMB1.2 million for relocating its pipeline to make way for the project site of the Airbus A320 assembly line in the Tianjin Airport;
- (iv) TSN-PEKCL provides pipeline transportation services to CNAFCL at a pipeline price that is bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, taking into account the pipeline transportation prices prescribed by the State Development and Planning Commission. The price for the provision of pipeline transportation services to CNAFCL is determined annually. Currently, the price for the provision of pipeline transportation services are charged by TSN-PEKCL to CNAFCL at the rate of RMB50 for every ton of jet fuel transported through the Pipeline to Beijing Airport. The price of RMB50 is higher than the pipeline transportation prices currently prescribed by the State Development and Planning Commission. In addition, both TSN-PEKCL and CNAFCL have a right to call for the review of the price for the provision of pipeline transportation services to CNAFCL upon the occurrence of any event that materially affects the business of TSN-PEKCL and/or CNAFCL. Any changes in pricing will require the unanimous approval of TSN-PEKCL's board of directors;
- (v) Under the Agreement, CNAF will, on Completion grant the Company the Put Option to require CNAF to purchase the Equity Interest, exercisable by the Company at any time after 5 years from the date of Completion, on the same valuation of TSN-PEKCL at RMB631,473,081. In the event the Put Option is exercised by the Company, the Saleback Consideration shall be RMB309,421,810 less the accumulated dividends received by the Company from TSN-PEKCL. Payment of the Saleback Consideration shall be made in cash, in US currency (US\$). This, to a certain extent, protects the downside risk of the Proposed Acquisition to the Company; and
- (vi) In the event the Company seeks to dispose of the Equity Interest (whether pursuant to the Put Option or otherwise), the Company will commission a valuation report on the Equity Interest and the Board will announce the reasons and rationale for such exercise. Any subsequent disposal of the Company's stake in TSN-PEKCL will be subject to such disposal obtaining the necessary approvals of the relevant PRC governmental authorities.

Based on the P/E ratio and P/NTA ratio set out under the Financial Assessment above, and in light of the monetary, industry, market, economic and other relevant conditions subsisting on the Latest Practicable Date, we are of the opinion that the consideration for the Proposed Acquisition does not compare favourably with the P/E ratio and P/NTA ratio of the Comparable Companies.

However, based on the EV/EBITDA ratio, the consideration for the Proposed Acquisition is comparable to the EV/EBITDA ratio of the Comparable Companies. In addition, the consideration for the Proposed Acquisition compares favourably with the Comparable Transaction. The Proposed Acquisition is also earnings accretive and the Company has also negotiated additional provisions for the benefit of the Company, such as the Pipeline Services Contract, the Put Option and the JVA. In particular, the Put Option enables the Company to recover its cost of investment in a worst case scenario.

The Company has also stated the Rationale and Benefits of the Proposed Acquisition (as set out in paragraph 2.7 of the Circular), in particular, that the Pipeline is a strategic and unique asset that is difficult to come by with high barriers to entry, which is expected to benefit the Company in the long term.

After carefully considering the information available to us as of, and based on our considerations above, we are of the opinion that, on balance, the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its Shareholders.

Accordingly, we advise the Independent Directors to recommend that the Shareholders vote in favour of the Proposed Acquisition at the EGM.

We have prepared this letter for the use of the Independent Directors of the Company in connection with and for the purposes of their consideration of the Proposed Acquisition and for inclusion in the Circular. No other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner except with CIMB-GK's prior written consent. Notwithstanding the generality of the preceding, for the avoidance of doubt, nothing in this letter prevents the Company, its Directors and Shareholders from reproducing, disseminating or quoting this letter for the purposes of the Independent Directors' recommendation to the Shareholders in relation to the Proposed Acquisition.

In rendering the above opinion, we have not taken into consideration the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual Shareholder. Accordingly, any individual Shareholder who may require specific advice in relation to his investment portfolio including his investment in the Shares should consult his stockbroker, bank manager, solicitor, accountant, tax adviser, or other professional adviser immediately.

The opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of
CIMB-GK SECURITIES PTE. LTD.

MAH KAH LOON
HEAD
CORPORATE FINANCE

ERIC WONG
DIRECTOR
CORPORATE FINANCE

LETTER FROM CIMB-GK TO THE INDEPENDENT DIRECTORS

CIMB-GK SECURITIES PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number: 198701621D)

50 Raffles Place #19-00
Singapore Land Tower
Singapore 048623

15 December 2008

To: The Independent Directors
China Aviation Oil (Singapore) Corporation Ltd
8 Temasek Boulevard
31-02 Suntec Tower Three
Singapore 038988

Dear Sirs,

INDEPENDENT FINANCIAL ADVISER OPINION IN RELATION TO THE METHODS AND PROCEDURES FOR DETERMINING THE TRANSACTION PRICES UNDER THE PIPELINE SERVICES CONTRACT

For the purpose of this letter, terms not otherwise defined herein shall have the same meaning given as in the circular dated 15 December 2008 to the shareholders of China Aviation Oil (Singapore) Corporation Ltd (the “Circular”), and the Pipeline Services Contract dated 7 May 2008.

1. INTRODUCTION

On 23 April 2008 (the “**Announcement Date**”), the Board of Directors (the “**Board**”) announced (the “**Announcement**”) that China Aviation Oil (Singapore) Corporation Ltd (“**CAO**” or the “**Company**”) had entered into a sale and purchase agreement (“**Agreement**”) with China National Aviation Fuel Group Corporation (“**CNAF**”) to acquire 49% of the equity capital of TSN-PEKCL (successor-in-title to TSN-PEK) (the “**Equity Interest**”) from CNAF, for the consideration of RMB309,421,810 (the “**Consideration**”), payable by way of cash or the issue and allotment of new shares (the “**Consideration Shares**”) in the capital of the Company, or a combination of both (the “**Proposed Acquisition**”). On 16 June 2008, TSN-PEKCL, which is wholly owned by CNAF, was registered as a limited liability company where all assets and liabilities of TSN-PEK were transferred to TSN-PEKCL as TSN-PEK’s successor-in-title. On 21 August 2008, the Directors announced that the Company and CNAF have entered into supplemental agreements both dated 21 August 2008 to amend the Agreement and the JVA (collectively “**Supplemental Agreements**”).

When the Proposed Acquisition was announced on 23 April 2008, it was disclosed, *inter alia*, that CNAF was guaranteeing that TSN-PEKCL would achieve a net profit after tax of not less than RMB47.28 million for FY2008. In light of the fact that Completion is expected to take place in the year 2009, it has been agreed between CNAF and CAO that the profit guarantee for FY2008 is to be replaced by a new letter of undertaking on TSN-PEKCL’s net profit after tax for FY2009.

Under the Letter of Undertaking, CNAF has guaranteed to CAO that the net profit after tax of TSN-PEKCL in respect of FY2009 shall not be less than RMB47.28 million (“**Guaranteed Profit**”). In order for TSN-PEKCL to have an assured revenue flow and to facilitate the achievement of the Guaranteed Profit, CNAFCL, another subsidiary of CNAF, has entered into a Pipeline Services Contract with TSN-PEK for a 5-year term effective from 1 January 2008. Under the Pipeline Services Contract, both CNAFCL and TSN-PEK agree to transfer all rights and obligations of

TSN-PEK under the Pipeline Services Contract to TSN-PEKCL after TSN-PEKCL has been registered as a limited liability company. Upon expiry, the Pipeline Services Contract shall be automatically renewed for a further term of 5 years. In the event that there are material changes in the laws, regulations or industrial policies of PRC which the parties mutually agree might result in a material adverse impact on either TSN-PEKCL or CNAFCL, both TSN-PEKCL and CNAFCL shall be entitled to re-negotiate the terms of the Pipeline Services Contract. Under the Pipeline Services Contract, CNAFCL has agreed that it shall, except due to circumstances beyond its control, utilise the entire capacity of the Pipeline of 3.25 million tons per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of the Pipeline Services Contract (the “**Proposed Transactions**”). TSN-PEKCL transported a cumulative total of 2.3 million tons of aviation fuel in FY2007 to achieve an audited net profit after tax (including a non-recurring item) of RMB46.97 million. The above mentioned non-recurring item refers to (i) a one-off reimbursement of RMB14.8 million by Tianjin Airport Logistics Office and (ii) loss on disposal of pipeline of RMB1.2 million for relocating its pipeline to make way for the project site of the Airbus A320 assembly line in the Tianjin Binhai International Airport (“**Tianjin Airport**”).

In addition, pursuant to the sale and purchase agreement entered into between the Company and CNAF dated 23 April 2008 (as amended and supplemented by the Supplemental Agreement to the Agreement dated 21 August 2008), TSN-PEKCL will, on the completion of the sale and purchase of the 49% of the equity capital in TSN-PEKCL, become an associated company of the Company. By virtue of CNAFCL being a subsidiary of CNAF and CNAF being a Controlling Shareholder of the Company, it is to be noted that all transactions pursuant to the Pipeline Services Contract will be considered as interested person transactions for the purposes of Chapter 9 of the Listing Manual.

To show its support for the Proposed Acquisition, BP Investments Asia Limited (“**BPIA**”), a subsidiary of BP and a controlling shareholder of the Company, has irrevocably undertaken to the Company to vote in favour of the ordinary resolution to approve the Proposed Acquisition and the transactions related thereto as set out in the notice of extraordinary general meeting on page 57 of the Circular.

CIMB-GK Securities Pte. Ltd. (“**CIMB-GK**”) has been appointed as the independent financial adviser to provide an opinion on whether the methods and procedures for determining the transaction prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders.

2. TERMS OF REFERENCE

We have been appointed to advise the Independent Directors on whether the methods and procedures for determining the transaction prices under the terms of the Pipeline Services Contract are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders.

We have confined our evaluation to the methods and procedures of the Proposed Transactions. We do not express any opinion on the commercial risks or merits of the Proposed Transactions or on the future prospects of the Company and its subsidiaries (the “**Group**”) or TSN-PEKCL (whether separately each on a standalone basis or as a combined entity assuming the completion of the Proposed Transactions). Such evaluation is the responsibility of the Directors although we may draw upon their views (to the extent we deem necessary or appropriate) in arriving at our opinion. We were not involved in the Company’s decision-making process or negotiations for the Proposed Transactions. We do not express any opinion on the merits of the Proposed Transactions relative to any alternative transaction or the methods by which the terms of the Proposed Transactions were determined.

In the course of our evaluation, we have held discussions with the Directors, the management of the Company and its advisers and have examined publicly available information collated by us and information provided by the Company and its advisers, including those in the Circular. We have relied upon and have assumed the accuracy of such information without independent verification. We do not make any representation or warranty in respect of, and do not accept any responsibility for, the accuracy, completeness or adequacy of such information. However, we have made such enquiries and exercised our judgment as we deemed necessary on such information and have found no reason to doubt the accuracy or reliability of the information.

We have relied upon the assurances of the Directors (including those who have delegated supervision of the Circular) that they have taken reasonable care to ensure that the facts stated and opinions expressed in the Circular are true, complete and accurate in all material respects and have been stated after due care and enquiry. The Directors have confirmed to us, that to the best of their knowledge and belief, all material information relating to the Group, TSN-PEKCL and the Proposed Transactions have been disclosed to us, that such information is true, complete and accurate in all material respects and there is no other information the omission of which would cause the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors have jointly and severally accepted such responsibility.

We have not conducted a comprehensive review of the business, operations or financial condition of the Company or the transactions described in the Pipeline Services Contract, details of which have been highlighted in Section 5 and Appendix III of the Circular.

Our opinion is delivered to the Independent Directors for their deliberation on the Pipeline Services Contract, and the recommendations made by the Independent Directors shall remain the sole responsibility of the Independent Directors. Our opinion should not be relied on as a recommendation to any shareholder of the Company (“**Shareholder**”) as to how such a Shareholder should vote on the resolutions to be tabled at the extraordinary general meeting (“**EGM**”) or any matter related thereto.

In rendering our advice, we have not had regard to the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any individual Shareholder. Any Shareholder who requires specific advice in the context of his specific investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Our evaluation and opinion in this letter are based upon market, economic, industry, monetary, regulatory, socio-political, and other conditions prevailing on, and the information available to us as at 3 December 2008 (“**Latest Practicable Date**”). Such conditions may change significantly over a short period of time. Accordingly, our evaluation and opinion in this letter do not take into account information, events or conditions arising after the Latest Practicable Date. Our advice should be considered in the context of the entirety of this letter and the Circular.

The Company has been separately advised by other advisers in the preparation of the Circular (other than this letter). We were not involved in the preparation and verification of the Circular (other than this letter). We take no responsibility for, and express no views, express or implied, on the contents of the Circular (other than this letter).

3. PIPELINE SERVICES CONTRACT

Salient information on the terms of the Pipeline Services Contract including the details of the Pipeline Services Contract, the rationale for and benefit of the Pipeline Services Contract and the review procedures for determining the Pipeline Services Prices are provided in Section 5 and Appendix III of the Circular.

4. EVALUATION OF THE METHODS AND PROCEDURES FOR DETERMINING THE PIPELINE TRANSPORTATION SERVICE PRICES

From the terms of the Pipeline Services Contract, Section 5 and Appendix III of the Circular, we note the following:–

- (a) The Pipeline Services Contract is for a 5-year term effective from 1 January 2008. Under the Pipeline Services Contract, both CNAFCL and TSN-PEK agree to transfer all rights and obligations of TSN-PEK under the Pipeline Services Contract to TSN-PEKCL after TSN-PEKCL has been registered as a limited liability company.
- (b) Upon expiry, the Pipeline Services Contract shall be automatically renewed for a further term of 5 years. In the event that there are material changes in the laws, regulations or industrial policies of PRC which the parties mutually agree might result in a material adverse impact on either TSN-PEKCL or CNAFCL, both TSN-PEKCL or CNAFCL shall be entitled to re-negotiate the terms of the Pipeline Services Contract.
- (c) Under the Pipeline Services Contract, CNAFCL has agreed that it shall, except due to circumstances beyond its control, utilise the entire capacity of the Pipeline of 3.25 million tons per year (after deducting 15 maintenance days annually) for the transportation of jet fuel for the duration of the Pipeline Services Contract. TSN-PEKCL transported a cumulative total of 2.3 million tons of aviation fuel in FY2007 to achieve an audited net profit after tax (including a non-recurring item) of RMB46.97 million. The above mentioned non-recurring item refers to (i) a one-off reimbursement of RMB14.8 million by Tianjin Airport Logistics Office and (ii) loss on disposal of pipeline of RMB1.2 million for relocating its pipeline to make way for the project site of the Airbus A320 assembly line in the Tianjin Airport.
- (d) TSN-PEKCL provides pipeline transportation services to CNAFCL at pipeline transportation prices that is bilaterally negotiated and agreed between TSN-PEKCL and CNAFCL, with reference to the pipeline transportation prices prescribed by the State Development and Planning Commission. The price for the provision of pipeline transportation services to CNAFCL is determined annually. Currently, pipeline transportation services are charged by TSN-PEKCL to CNAFCL at the rate of RMB50 for every ton of jet fuel transported through the Pipeline to Beijing Airport. The price of RMB50 is higher than the pipeline transportation prices currently prescribed by the State Development and Planning Commission. In addition, both TSN-PEKCL and CNAFCL have a right to call for the review of the price for the provision of pipeline transportation services to CNAFCL upon the occurrence of any event that materially affects the business of TSN-PEKCL and/or CNAFCL. Any changes in pricing will require the unanimous approval of TSN-PEKCL's board of directors.
- (e) CNAFCL is the sole supplier of aviation fuel to Beijing Capital International Airport and Tianjin Airport, which are respectively the termination point and a supply point of the Pipeline. CNAFCL is the sole customer of TSN-PEKCL.
- (f) The proposed prices for pipeline transportation services to CNAFCL will be reviewed and agreed to by members of the Audit Committee who have no interest (whether direct or indirect) in the Pipeline Services Contract. In reviewing and determining whether the future price(s) for the pipeline transportation services are on normal commercial terms and not prejudicial to the Company or its minority Shareholders, any decision made by the Audit Committee will take into account the following parameters:–
 - (i) Any directives or guidelines relating to pipeline transportation prices prescribed by the State Development and Planning Commission (or such other PRC authority having jurisdiction to prescribe such prices). The renewed pricing must not be less than the prices prescribed by the relevant PRC authority.
 - (ii) The prices for pipeline transportation services charged by TSN-PEKCL to CNAFCL immediately prior to the review.

- (iii) Comparison of the pipeline transportation prices offered by TSN-PEKCL to CNAFCL and associated costs (such as operating costs and overheads) against the prices and associated costs (such as operating costs and overheads) from a comparable unrelated pipeline transportation business wherever located.
- (iv) Any other factors that the Audit Committee deems relevant in making its decision.

5. CONCLUSION

The future price(s) for the pipeline transportation services will be determined by the Audit Committee, which will at least take into account (a) any directives or guidelines relating to pipeline transportation prices prescribed by the State Development and Planning Commission (or such other PRC authority having jurisdiction to prescribe such prices), (b) the prices for pipeline transportation services charged by TSN-PEKCL to CNAFCL immediately prior to the review, (c) the comparison of the pipeline transportation prices offered by TSN-PEKCL to CNAFCL and associated costs (such as operating costs and overheads) against the prices and associated costs (such as operating costs and overheads) from a comparable unrelated pipeline transportation business wherever located and (d) any other factors that the Audit Committee deems relevant in making its decision.

Accordingly, we are of the view that the methods and procedures for determining the price(s) for pipeline transportation services, if adhered to, are sufficient to ensure that the transactions carried out thereunder will be on normal commercial terms, and will not be prejudicial to the Company or its minority Shareholders.

We have prepared this letter for the use of the Independent Directors of the Company in connection with and for the purposes of their consideration of the Pipeline Service Contract and for inclusion in the Circular. No other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner except with CIMB-GK's prior written consent. Notwithstanding the generality of the preceding, for the avoidance of doubt, nothing in this letter prevents the Company, its Directors and Shareholders from reproducing, disseminating or quoting this letter for the purposes of the Independent Directors' recommendation to the Shareholders in relation to the methods and procedures for determining the transaction prices under the Pipeline Services Contract.

In rendering the above opinion, we have not taken into consideration the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual Shareholder. Accordingly, any individual Shareholder who may require specific advice in relation to his investment portfolio including his investment in the Shares should consult his stockbroker, bank manager, solicitor, accountant, tax adviser, or other professional adviser immediately.

The opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of
CIMB-GK SECURITIES PTE. LTD.

MAH KAH LOON
HEAD
CORPORATE FINANCE

ERIC WONG
DIRECTOR
CORPORATE FINANCE

SUMMARY OF THE TERMS OF THE PIPELINE SERVICES CONTRACT

Between China Aviation Fuel Corporation Ltd (CNAFCL) and China National Aviation Fuel TSN-PEK Pipeline Transportation Corporation (TSN-PEKCL) (each a “Party” and collectively the “Parties”)

1. Content of the Contract

Under the Pipeline Services Contract, the Parties have agreed that, for a period of 5 years commencing from 1 January 2008, CNAFCL shall engage TSN-PEKCL in relation to the transportation of jet fuel to Beijing Airport and Tianjin Airport through the use of the Pipeline. CNAFCL has agreed that it shall, except due to circumstances beyond its control, utilize the entire capacity of the Pipeline of 3.25 million tons per year (the “Transportation Capacity”) for the transportation of jet fuel for the duration of the Pipeline Services Contract.

2. Rights and Obligation of Both Parties

(a) *CNAFCL's Rights*

- (i) During the term of the Pipeline Services Contract, CNAFCL shall be entitled to supervise TSN-PEKCL to ensure strict compliance with the Pipeline Services Contract; and
- (ii) During the term of the Pipeline Services Contract, CNAFCL shall, in the event of breach by TSN-PEKCL, be entitled to request in writing or in other acceptable forms that TSN-PEKCL rectify its breach.

(b) *CNAFCL's Obligations*

- (i) CNAFCL shall guarantee that it will retain the operation rights for the transportation of jet fuel during the term of the Pipeline Services Contract;
- (ii) CNAFCL shall engage TSN-PEKCL for the transportation of jet fuel to Beijing Airport and Tianjin Airport through the use of the Pipeline in accordance with the terms and conditions of, and during the term of the Pipeline Services Contract; and
- (iii) CNAFCL shall utilise the Transportation Capacity of the Pipeline to the maximum extent.

(c) *TSN-PEKCL's Rights*

- (i) Save for the reasons beyond the control of CNAFCL, TSN-PEKCL shall be entitled to request that CNAFCL engage TSN-PEKCL for the transportation of jet fuel to Beijing Airport and Tianjin Airport through the use of the Pipeline during the term of the Pipeline Services Contract, based on the general principle of maximum utilisation of the Transportation Capacity; and
- (ii) During the term of the Pipeline Services Contract, TSN-PEKCL shall be entitled to charge for the jet fuel transportation service.

(d) *TSN-PEKCL's Obligations*

- (i) TSN-PEKCL shall, as per the terms and conditions of and during the term of the Pipeline Services Contract, guarantee that it is the legal owner of the Pipeline, free from any encumbrance, and that there is no degeneration in the quality of the Pipeline;

- (ii) TSN-PEKCL shall guarantee and undertake that, during the term of the Pipeline Services Contract, the Pipeline will be able to achieve maximum Transportation Capacity (after deducting the 15 days for maintenance), and further undertakes to make full utilisation of the Transportation Capacity, save for any reason beyond the control of CNAFCL;
- (iii) During the term of the Pipeline Services Contract, TSN-PEKCL shall be responsible for the daily maintenance, repairing and security surveillance of the Pipeline so as to ensure the smooth operation of the Pipeline. The maintenance cost of such maintenance shall be borne by TSN-PEKCL; and
- (iv) During the term of the Pipeline Services Contract, TSN-PEKCL shall not, without the express written consent of CNAFCL, sell, alter or dispose of the Pipeline or allow any encumbrance on the Pipeline.

3. Force Majeure

In the event that any force majeure event (as legally defined by law) occurs which results in either a delay in performance or renders performance impossible, each Party shall bear its own costs.

4. Breach

Both Parties shall fulfill their obligations specified in the Pipeline Services Contract fully and properly. In the event of any breach, the non-defaulting Party shall be entitled to notify the defaulting Party and require the defaulting Party to rectify the breach promptly. Should the defaulting Party fail to rectify the breach within 15 days of receiving such notice, the defaulting Party shall be entitled to compensation for all actual losses suffered due to the breach.

5. Dispute Settlement

The Pipeline Services Contract is governed by PRC law. Any dispute arising from or in relation to the Pipeline Services Contract shall be settled by both Parties through negotiation. If common consent cannot be reached, either Party shall be entitled to submit a claim to Beijing Arbitration Committee for arbitration. The arbitration award shall be final and binding on both Parties.

6. Miscellaneous

Upon its expiry, the Pipeline Services Contract shall be automatically renewed for 5 years. However, if there is any change in the laws, regulations or industrial policy of the PRC during the term of the the Pipeline Services Contract, and such change will, in the view of both Parties, affect the interest of one or both Parties materially, the terms and conditions of the Pipeline Services Contract may be amended by negotiation and the common consent of both Parties.

CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

(Incorporated in Republic of Singapore)
(Registration No.: 199303293Z)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of China Aviation Oil (Singapore) Corporation Ltd will be held at Suntec Singapore International Convention and Exhibition Centre, Meeting Rooms 208 to 209, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Friday, 9 January 2009 at 3:00 p.m for the purpose of considering and, if thought fit, passing the following resolution, with or without any amendment:

AS AN ORDINARY RESOLUTION

PROPOSED ACQUISITION OF 49% OF THE EQUITY CAPITAL OF TSN-PEKCL

That for the purposes of Chapters 9 and 10 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**Listing Manual**”):

- (i) approval be and is hereby given for the proposed acquisition (the “**proposed Acquisition**”) of 49% of the equity capital of China National Aviation Fuel TSN-PEK Pipeline Transportation Corporation Ltd (中国航油集团津京管道运输有限责任公司) (“**TSN-PEKCL**”) for an aggregate consideration of RMB309,421,810 (the “**Consideration**”), upon the terms and subject to the conditions of the sale and purchase agreement (the “**Agreement**”) entered into between the Company (as purchaser) and China National Aviation Fuel Group Corporation (中国航空油料集团公司) (the “**Vendor**”) on 23 April 2008 (as amended and supplemented by the supplemental agreement to the Agreement dated 21 August 2008);
- (ii) approval be and is hereby given for the joint venture agreement dated 23 April 2008 and entered into between the Company and the Vendor (as amended and supplemented by the supplemental agreement to the joint venture agreement dated 21 August 2008) to govern their relationship as shareholders of TSN-PEKCL;
- (iii) subject to and conditional upon completion of the Agreement, approval be and is hereby given for the supply of pipeline transportation services by TSN-PEKCL to China National Aviation Fuel Corporation Ltd (中国航空油料有限责任公司) on the terms set out in the Circular to Shareholders dated 15 December 2008 in relation to the proposed Acquisition (the “**Circular**”); and
- (iv) the Independent Directors of the Company (as defined in the Circular) and each of them be and is hereby authorised to take such steps, enter into all such transactions, arrangements and agreements and execute all such documents as may be desirable, necessary or expedient for the purposes of or in connection with the proposed Acquisition, with full power to assent to any condition, amendment, alteration, modification or variation which are not prejudicial to the interests of the Company and its Independent Shareholders (as defined in the Circular) as the Independent Directors or any of them may deem fit or expedient in the interests of the Company or to give effect to this Resolution.

By Order of the Board

CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

Doreen Nah
Company Secretary

15 December 2008

Notes:–

1. A member of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. The instrument appointing a proxy must be signed by the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy is executed by a corporation, it must be executed either under its common seal or under the hand of any officer or attorney duly authorised.
3. The instrument appointing a proxy must be duly deposited at the registered office of the Company at 8 Temasek Boulevard #31-02 Suntec Tower Three Singapore 038988 no later than 48 hours before the time appointed for the holding of the Extraordinary General Meeting.

**CHINA AVIATION OIL (SINGAPORE)
CORPORATION LTD**

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

IMPORTANT:

1. For investors who have used their Central Provident Fund ("CPF") moneys to buy shares in the capital of the Company, this Circular is sent to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM

*I/We _____, NRIC/Passport No. _____

of _____

being a *member/members of the Company hereby appoint the following person(s)^(Note2):

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

And/or (delete as appropriate)

--	--	--	--

or failing him/her/them, the Chairman of the Meeting as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and, if necessary, to demand a poll at the Extraordinary General Meeting of the Company to be held at Suntec Singapore International Convention and Exhibition Centre, Meeting Rooms 208 to 209, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Friday, 9 January 2009 at 3:00 p.m and at any adjournment(s) thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the resolution as set out in the Notice of the Extraordinary General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/she/they may think fit, as *he/she/they will on any other matters arising at the Extraordinary General Meeting.)

	To be used on a Show of Hands		To be used in the event of a Poll	
			No. of votes	No. of votes
	For	Against	For	Against
Ordinary Resolution To approve the proposed Acquisition and the transactions related thereto				

Dated this _____ day of _____ 2009.

Signature of Member(s)/Common Seal

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

IMPORTANT: Please read notes overleaf.



Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in section 130A of the Companies Act, Cap. 50) ("**Act**"), you should insert that number. If you have shares registered in your name in the Register of Members of the Company, you should insert that number. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
2. A Member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote on his behalf. Such proxy need not be a member of the Company. If any proxy (other than the Chairman of the Meeting) is to be appointed, please insert the name(s) and particulars of the proxy or proxies to be appointed in the box provided.
3. If the Chairman of the Meeting is appointed as proxy, this instrument appointing a proxy or proxies shall be deemed to confer on him the right to nominate a person to vote on his behalf on a show of hands.
4. Where a member appoints more than one proxy, he shall specify the number of shares to be represented by each proxy.
5. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 8 Temasek Boulevard #31-02 Suntec Tower Three Singapore 038988 not less than 48 hours before the time appointed for the meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or by a duly authorised officer on behalf of the corporation.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with section 179 of the Act.
8. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the meeting, as certified by The Central Depository (Pte) Limited to the Company.

This page has been intentionally left blank.

