



China Aviation Oil (Singapore) Corporation Ltd
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MEDIA RELEASE

CAO Announces Corporate Strategy

SINGAPORE, 28 February 2008 – China Aviation Oil (Singapore) Corporation Ltd ("**CAO**") today announced its strategy for further growth and expansion of its existing business.

Mr Lim Jit Poh, Chairman of CAO said, "CAO's strategy sets out the developmental direction for CAO which will complement its current business model of deriving income from jet fuel procurement. CAO will take additional calculated risks to sustain its growth objectives and create the capabilities it needs to compete in the future."

Following the completion of restructuring in March 2006, the Board of Directors of CAO ("**the Board**") had decided that CAO should position itself as a leading international oil trading company and the three core business components associated with it shall be:

- (i) jet fuel supply;
- (ii) trading of relevant oil products; and
- (iii) investments in synergetic assets to enhance (i) and (ii).

The first pillar of jet fuel supply has been in existence before and after the restructuring. CAO currently supplies more than 90% of China's jet fuel import requirements. CAO also holds investments in oil-related assets, namely Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd and China Aviation Oil Xinyuan Petrochemicals Co., Ltd. CAO had suspended the trading of oil products and derivative contracts since the announcement of substantial losses from speculative derivative contracts trading on 30 November 2004.

The Board has recently approved CAO's corporate strategy which sets out CAO's plans to create a portfolio of supply, trading and oil-related assets that are synergetic to each other.

CAO will transform its current jet fuel procurement model into a jet fuel supply optimisation model complemented by trading activities to capitalise on its competitive advantages. CAO will enhance its capabilities to offer value-added services to customers and eventually seek to extend its competitive advantages

beyond the PRC supply chain. This is to develop trading capabilities for CAO to maintain its current leading position in PRC's jet fuel import market in the event of deregulation.

In 2008, one of CAO's priorities will be to develop a jet fuel supply optimisation model, which will enhance its offers to customers and support its own growth.

To diversify products and geographies, CAO will gradually commence trading of other oil products and petrochemicals within its means and resources. CAO will adopt a business model where trading complements supply activities.

CAO will also seek to access synergetic oil-related assets, such as storage and logistics assets to complement its jet fuel supply business and trading of other oil-related products.

Ready to Commence Trading of other Oil Products

As part of its strategy implementation, CAO aims to gradually commence trading of other oil products this year within its means and resources. CAO will not engage in speculative options trading.

To prepare for the commencement of trading, the Board and Management of CAO have systematically identified the risks related to trading over the past year. Measures have been implemented to assess, mitigate and manage these risks. CAO's strategic investor, BP, has provided unstinting support and assistance during this process through BP nominee Directors and management secondees.

Investments of about US\$1 million were incurred to install the hardware and software for trading. CAO implemented the Allegro Energy Trading and Risk Management ("**ETRM**") system, an application widely used by global energy companies to manage trading and supply activities and their related risks. New server systems were purchased to run the ETRM application. CAO will run daily mark-to-market reports from the ETRM system, which will be monitored by the Risk Management Department and reported to the Management.

The Independent Directors and China National Aviation Fuel Group Corporation ("**CNAF**") nominee Directors of CAO have undergone training/briefing sessions conducted by BP to ensure that all Directors have a good understanding of the trading business.

Clearly defined trading risk limits have been set and approved by the Risk Management Committee ("**RMC**"), a Board Committee of CAO, to ensure that the risk appetite is commensurate with the financial resources and trading capabilities of CAO. The Risk Management Department, which has a second direct reporting line to the RMC, monitors these limits on a daily basis to ensure that they are adhered to.

The RMC has also approved the products or instruments to be traded by CAO and the following key measures to assess, mitigate and manage risks related to trading activities:

- (i) Preparation of daily mark-to-market reports;

- (ii) Segregation of duties;
- (iii) CAO Trader Guidelines which set out the broad trading principles and acceptable trade practices;
- (iv) Revised Risk Management Manual which stipulates detailed risk management policies, procedures and processes designed to manage trading-related risks; and
- (v) Trader induction programme for new traders.

Risk Management Department and the internal auditors will ensure compliance to the above policies and guidelines.

Sufficient financial resources and credit facilities required for trading are also in place. Working capital requirements and exposures that will arise from trading activities are not expected to be significant relative to CAO's current total asset base.

Mr Zhang Zhenqi, Executive Director and General Manager of CAO said, "The Board and its Risk Management Committee have undertaken thorough reviews to ensure that adequate corporate governance and risk control measures are in place for CAO to commence trading, and that the Board and the Management fully understand the risks involved. We will grow this business cautiously and meaningfully within our means and resources."

Mr Zhang added, "We would like to express our deep appreciation to BP for their relentless support and guidance to the Management in our preparation to recommence trading of oil-related products by the sharing of their expertise in trading and risk management."

About CAO

Listed on the mainboard of the Singapore Exchange Securities Trading Limited, CAO is the key supplier of imported jet fuel to the Chinese civil aviation industry. CAO also owns investments in strategic oil-related businesses, which includes Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd and China Aviation Oil Xinyuan Petrochemicals Co. Ltd.

Besides trading in oil-related products, CAO will also continue to seek investment opportunities in oil-related assets that are synergetic to its core businesses.

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