China Aviation Oil (Singapore) Corporation Ltd
中国航油（新加坡）股份有限公司

China Aviation Oil Achieves 60% Growth In Normalised Earnings In 2003 - Net Profit Rises to S$54.3M

29/02/04

SINGAPORE, 29 February 2004 - SGX Main Board-listed China Aviation Oil Singapore) Corporation Ltd ("CAO") today announced robust year-on-year growth in profits for the financial year ended 31 December 2003 ("FY03"). The Company's three-pronged business strategy proved resilient in the face of adverse conditions - the Iraq war, the outbreak of SARS, and the ongoing threat of terrorism - and enabled the company to post growth in all business lines.

Normalised profits growth of 60%

The Group recorded net profit after tax ("NPAT") of S$54.3 million for FY03, a 12.5% increase over FY02's S$48.2 million. Profit before tax ('PBT") was S$67.1 million, a 22.8% gain on the financial year ended 31 December 2002 ("FY02"). However, the FY02 results included exceptional items amounting to S$12.7 million, arising from the write-back of unutilised provisions for management fees and staff bonuses in prior years. These exceptional items were included in FY02's fourth quarter (Q4 FY02). Excluding these exceptional items, pre-tax profit for FY03 rose 60.0% over FY02.

For Q4 FY03, CAO's PBT and NPAT were S$20.6 million and S$14.5 million, respectively. Stripping out the exceptional items from Q4 FY02 earnings, Q4 FY03's PBT thus was up 62.9% over Q4 FY02.

Meeting the challenges of a difficult year

Commenting on the above results, Managing Director and CEO Mr. Chen Jiulin said, "We are pleased that our diversification strategy has prevailed through the toughest trading conditions to date during the greater part of 2003. Market conditions were buffeted by the outbreak of war in Iraq, continued terrorist threats, and the SARS epidemic. Such circumstances were unprecedented and beyond our control, with special challenges for oil- and China-related companies.

Oil prices fluctuated substantially over the year.; SARS decimated Chinese domestic air travel and flights were dramatically curtailed in 2Q. Our good results that quarter attest to the efficacy of our risk-management systems and to the acumen of our experienced traders.The subsequent strong rebound in jet fuel demand in 3Q & 4Q more than offset the earlier fall. Meanwhile, as expected, strategic investments were the main contributor to our bottom line. Profits from our investments, Compania Logistica de Hidrocarburos ("CLH") of Spain and Shanghai Pudong International Airport Aviation Fuel Supply Company ("Pudong"), accounted for 68% of FY03's PBT. International oil trading and jet fuel procurement accounted for 14% and 18% respectively, owing largely to the exceptionally strong growth in procurement volumes we saw in the second half of the year."

Investments support growth

The total contribution by Strategic Investments for the year, net of goodwill amortisation, was S$45.3 million at the pre-tax level, compared with S$19.2 million in FY02, for a 137% gain.

Associate profits, contributed by 33%-owned Pudong increased 68.9% to S$34.5 million. FY03 was the first year CAO equity-accounted Pudong's full -year results, and the contribution was less than expected. As previously reported, this was due to the Chinese authorities holding the resale price of jet fuel constant despite increases in international oil prices, in order to help the domestic aviation industry through the SARS crisis. Although Pudong's gross margin saw a gradual reduction during 2003, it is expected to stabilise in 2004. In addition, three dividends were received from 5%-owned CLH of Spain in FY03, achieving good returns on the investment.

Trading and procurement have a great year

Group revenue from CAO's international oil trading and jet fuel procurement businesses rose 43.5% to S$2.43 billion, of which sales in clean petroleum products accounted for 60%. Trading gross profit increased 20.3% to S$46.1 million. In Q4 FY03 alone, the Company recorded a 14.35% increase in revenue to S$654 million compared to Q4 FY02, while gross profit for the quarter rose 80.8% over the year-earlier period to S$12.7 million.

Operating expenses increased by S$9.1 million, due to various factors: the Company's increased headcount, including skilled traders on the back of expansions in the international oil trading division; a full year's amortization of goodwill for Pudong acquisition; and the US$1.6 million arranger fee for the US$160 million syndicated term credit facility signed in July 2003. As of 29 February 2004, this facility has not been drawn down, as cash on hand was sufficient to fulfil the cash component in the recent transaction to acquire Fortune Aviation Holding, whose sole asset is 24.5% of the shares outstanding of South China Bluesky Aviation Oil Co., Ltd ("Bluesky").

Financial standing remains strong

During 2003, CAO received from Pudong a dividend of RMB 105.6 million, paid out of Pudong's FY02 profit. It also received a distribution of retained earnings of RMB 39.6 million accrued in years prior to 2002, which was offset against the purchase price. Neither transaction had an effect on the Company's profits.

During the year, CAO was awarded an extension of its Global Trader Program membership for an additional five years. The Company continues to pay a concessionary tax rate of 10% for qualifying transactions.

Positive outlook in place

Looking ahead, Mr. Chen added, "Currently, plans are progressing smoothly for CAO, but we must be prepared for any shocks in the external environment. With our new investments, Bluesky and the Shuidong oil tank farm, boosting our oil-related infrastructure portfolio, the Group is now in a much stronger position to meet challenges as they arise.

Jet fuel procurement volumes for Q1 FY04 will be the highest ever for the quarter, marking a third consecutive quarterly record. Judging by current trends, we expect to maintain or exceed 2003 levels. We also still have a substantial 'war-chest' to enhance our bargaining power as we consider various investment opportunities, and we will continue to pursue more strategic investments according to our own timeline, as well as our strict investment criteria."

CAO Chairman Mr. Jia Changbin said, "CAO has managed to grow shareholder value in 2003 despite challenging external events. In view of the results and continuing positive outlook, the Board has proposed to reward shareholders with a dividend of 3.5 Singapore cents per share, and two bonus shares for every five shares held, which translates to a dividend yield of 1.8%, will further increase our shares' liquidity, and will express our gratitude to our shareholders for their loyalty through a challenging but ultimately rewarding year.

The Group's 'growth triangle' is now firmly in place, comprising our head office in Singapore, the world's 3rd largest oil trading hub; Pudong in Shanghai, China's economic power-house, and Fortune Aviation/Bluesky and Shuidong in the heart of China's southern economic region. Additionally, CAO has top-level access to global oil majors through our investment in CLH. Thus, we are optimistic CAO is on track to achieving record profitability in 2004."

By Order of the Board
Adrian Chang
Company Secretary

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