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

Press Release - China Aviation Oil Second-Quarter 2003 Profit Surges 42% To S$11.3 Million

29/08/03

*** Investment contributions drive strong growth despite difficult business conditions**
*** Bright outlook for 2H2003 as market conditions normalize and growth resumes**
*** MD-initiated remuneration scheme adjustment to add to shareholder value**

SINGAPORE, 29 August ? SGX Main Board-listed China Aviation Oil (Singapore) Corporation Ltd ("CAO") today announced strong year-on-year growth in profits for the second quarter of 2003 ("2Q2003") and the first half of 2003 ("1H2003"). Contributions by strategic investments, as well as resilience in the company's trading and procurement businesses, were the main contributors to the company's profitability during a difficult period, in which SARS and the war in Iraq adversely impacted markets worldwide.

After-tax profit in 2Q2003 was S$11.3 million, compared with S$7.9 million in 2Q2002, for a gain of 41.9% year-on-year. Turnover rose 15.7% year-on-year to S$465.8 million. The contribution to earnings by 33% associate Shanghai Pudong International Airport Aviation Fuel Supply Company ("Pudong") amounted to S$8.7 million before amortisation of goodwill, while 5%-owned Compania Logistica de Hidrocarburos ("CLH") paid a dividend amounting to S$2.3 million.
On a half-year basis, 1H2003 profits after tax of S$29.4 million compared with S$17.5 million during 1H2002, for growth of 67.6% year-on-year. Turnover rose 62.8% year-on-year to S$1.0 billion. The Pudong contribution to earnings was S$18.1 million before amortisation, while CLH dividends totaled S$7.0 million for the half.

Three-pronged strategy endorsed

Managing Director and CEO Mr. Chen Jiulin said, "The strength of our second-quarter and first-half results shows the viability of our three-pronged business model, encompassing strategic investments, international oil trading and jet fuel procurement. Our investments have helped to ensure growth even in difficult market conditions. As we move into a period of recovery in the second half of the year, these same investments should help create synergies that will boost the bottom line even further."

Surmounting difficulties

Despite the difficult conditions present in the second quarter of 2003, a number of positive factors helped the company to achieve its remarkable growth. Associate earnings by Pudong and dividends from CLH, which together reached S$11.0 in 2Q2003 (78% of pretax profits) and S$25 million in 1H2003 (68% of pretax profits), made significant contributions to the bottom line.

These positive factors helped CAO to surmount difficulties and post growth even in the uncertain environment of the second quarter, which held special challenges for China- and oil-related companies. The impact of SARS on China was acute, particularly as regards the travel industry. Chinese airlines cut schedules by as much as 50%, while traffic fell as much as 80% in some cases. As a result, procurement tenders for four cargoes were deferred and another one cancelled during the quarter, representing a roughly 40% decrease in volumes compared to the same period in 2002.

The reduced flight schedules also meant that fuel supply at CAO's Pudong associate dipped. As far as the impact on a year-on-year basis is concerned, however, the shift of all of Shanghai's international flights from the Hongqiao airport to the Pudong airport from October 2002 mitigated the impact of fewer flights. As a result, Pudong was able to post a healthy profit for the quarter.

In addition, war in Iraq had the effect of increasing volatility in the oil markets, making profitability less certain for the trading and procurement businesses. Nonetheless, due to the company's risk-management systems and trading acumen, both divisions remained solidly in the black.

Thus despite adverse conditions, CAO posted solid profit in all of its businesses - its trading and procurement operations, as well as its investments. The company's strategy of diversification thus had its desired effect in smoothing out earnings despite unforeseen adverse events.

A rosy outlook

Looking at current and future market conditions, CAO feels there is much room for optimism regarding the balance of the year. Airlines have largely reinstated flight schedules to pre-SARS levels, meaning that Pudong should soon see a full rebound in fuel off-take. Fuel procurement tenders have not merely resumed normal volumes but are set to show year-on-year growth in the fourth quarter of 2003, reaching all-time highs. International Oil trading remains profitable on a company-wide basis.

In addition, distributions by Pudong, amounting to Rmb145 million (about S$30 million) and made during the third quarter, have boosted the cash position at the CAO level. The July signing of a US$160 million credit facility also broadens the options available to CAO for developing future growth opportunities.

Mr. Chen said, "CAO had an excellent first quarter and surprised on the upside with its second-quarter performance as well. The second half of 2003 should reflect an improved business environment, and should continue to reward our shareholders for their loyalty."

Managing Director's remuneration adjusted

At Mr. Chen's initiative, the Remuneration Committee drafted a proposal adjusting the Managing Director's service agreement, which the Board has subsequently approved. Under the terms of the new plan (which when signed will be made effective 1 January 2003), base salary is S$480,000 per year, while bonus is S$120,000. The new profit sharing scheme pays according to the following schedule:

? Nothing on the first S$20 million in pretax profit [previous threshold S$12 million]
? 7% of pretax profits over S$20 million but less than S$40 million [previously 7% of pretax profits over S$12 million but less than S$20 million]
? 8% of pretax profits over S$40 million but less than S$60 million
? 9% of pretax profits over S$60 million but less than S$80 million [previously 9% of pretax profits over S$20 million but less than S$35 million]
? 10% of pretax profits over S$80 million [previously 10% of pretax profits over S$35 million]

In the current (1H2003) financial statements, provisions are made based on the former plan. However, owing to the savings the new scheme offers, the amount accruing under the terms of the new plan would amount to S$800,000 less than the provisions made for 1H2003 alone.

CAO's Chairman, Mr. Jia Changbin, said, "Chen Jiulin is entitled to a higher profit-sharing scheme under the terms of the existing service agreement, considering industry standards, his qualifications and the contribution he has made to the company. However, he has encouraged the Board to retain greater profit in the interests of maximizing shareholder value. I commend his initiative and fully support his proposal."

By Order of the Board
Adrian Chang
Company Secretary
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About China Aviation Oil (Singapore) Corporation Ltd ("CAO")

Listed on SGX in December 2001, CAO is leveraging on the rapidly growing Chinese aviation industry to become a global market player on the premise of its three-pronged strategy to stabilise and enhance profit streams. The only publicly listed entity of its parent company, China Aviation Oil Holding Company, a large state-owned aviation transportation logistics group, CAO is the centrepiece of CAOHC's strategy to expand into international markets and invest in the global oil-related industry.

CAO holds a 33% stake in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd (SPIA/AFSC), Pudong airport's sole jet fuel supplier and owner of its refuelling and storage facilities. It also has a strategic 5% stake with board representation in Compania Logistica de Hidrocarburos (CLH), Spain's leading oil carrier and owner of its largest network of oil pipelines and storage facilities. Today, CAO trades globally in fuel oil, gas oil, crude oil, petrochemical products and oil derivatives and handles virtually 100% of China's total jet fuel imports. Annual sales revenue was S$1.69 billion in 2002, and market scope has expanded beyond China to ASEAN, the Far East and USA.