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

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Incorporated in the Republic of Singapore
Co. Reg. No.: 199303293Z

26th Annual General Meeting held on 4 June 2020

Responses to Questions from Securities Investors Association (Singapore)

Question 1:

(i) **Can Management help shareholders better understand the situation on the ground at Shanghai Pudong International Airport where the group is the exclusive supplier of jet fuel and into-plane refueling services?**

Response: China Aviation Oil (Singapore) Corporation Ltd ("**CAO**") has a 33-percent equity stake in Shanghai Pudong International Airport Aviation Fuel Supply Company ("**SPIA**") and is the second largest shareholder of SPIA. SPIA is the exclusive supplier of jet fuel and into-plane services at Shanghai Pudong International Airport and has been one of the main profit contributors of the CAO Group for many years.

As COVID-19 pandemic continues to intensify globally, the aviation industry in China and elsewhere globally have been hit hard. During the first quarter of 2020, SPIA was significantly impacted as jet fuel supply volumes declined 39.58% to 666.7 thousand metric tonnes, sales revenue and net earnings fell sharply to USD 451.395 million and USD16.843 million respectively.

The impact from the COVID-19 pandemic disruptions on SPIA is likely to continue beyond the second quarter of 2020. As disclosed by the Company in its announcement relating to "Update of Financial Performance for the quarter ended 31 March 2020" on 21 April 2020, the net earnings of the CAO Group declined by 59% to US$10.782 million for 1Q 2020 as compared to net earnings of US$26.335 million in the corresponding period last year after taking into account its share of net earnings from SPIA of US$5.558 million for 1Q 2020. Nevertheless, we believe that as the profound impact of COVID-19 eases globally, the aviation industry will gradually recover and SPIA's profitability will eventually rebound.

(ii) **With the increased uncertainty over demand and greater volatility in oil prices, what adjustments has Management made to its risk management framework, especially policies relating to inventories and credit?**

Response: The Company has always adopted a conservative approach in the management of its credit risk. In the past two years, the Company has effectively upheld the management philosophy of "Compliance as Top Priority, Risk Management is of Utmost Importance" and has significantly strengthened its credit risk management processes. We have implemented more stringent in-house credit assessments on all our counterparties, both in qualitative and quantitative aspects. Our counterparties are further grouped according to their credit quality and market standing. Even in the midst of the recent volatilities in international oil prices and increasing uncertainty in demand that have eroded the credit quality of some counterparties, the Company's credit risk management policy has helped to shield the Group from potential counterparty credit losses as well as contractual disputes. We will continue to implement stringent counterparty on-boarding process and ensure our credit risk management process is effective.

Since the beginning of last year, the Company has put in place and implemented a comprehensive and strict hedging policy which prohibited speculative trading. This hedging policy will ensure that high volatilities in oil prices will not materially impact our inventories and the operating performance of the Group.

(iii) **Are there signs of material deterioration in the credit quality of its customers, especially in the trading segment?**

Response: In recent months, we have witnessed a gradual deterioration of global oil market conditions which had eroded the credit profiles of some of our trading counterparties. In the light of such development, CAO has put in place more stringent counterparty risk management measures to mitigate such increase in counterparty risk. CAO has been very cautious in the management of credit risk and conducts reviews on its portfolio of counterparties regularly to either weed out less creditable counterparties or trade with such counterparties on more secured credit terms, which could include prepayments, payments by way of documentary letters of credit and/or cash collateral as a form of credit support. Since the outbreak of COVID-19, the Company has downsized or right-sized its portfolio of counterparties and required trading with some counterparties on more secured credit terms to mitigate the impact of counterparty risk. Rest assured that we will continue to implement appropriate measures to safeguard the best interests of our shareholders.

(iv) **With its strong net-cash position, is management on the look-out for opportunistic, earnings-accretive acquisitions that meet the group's strategic goals?**

Response: Backed by net cash inflows generated from the Group's sterling performance in previous years, and with its strong net-cash position for the financial year 2019, the Group is well-positioned to pursue investment opportunities.

To ensure sustainable growth for the Group going forward, the Group has been actively looking out for opportunities to grow strategically through acquisitions or investments in oil-related assets even as the Group continues to balance cash management to sustain returns to shareholders through its growth-based dividend policy, and tide over the current economic crisis by maintaining adequate working capital and cash flow to facilitate the Group's operating performance.

The Group has been actively seeking potential oil-related investment opportunities in China and around the world that are in line with its developmental strategy to create value and deliver long-term sustainable returns to shareholders. If and when there are any material developments in the investment projects, the Company will, in accordance with its disclosure obligations under the Listing Manual of the Singapore Exchange Securities Trading Limited, issue any such announcements as appropriate.

Question 2:

Would management provide shareholders with better clarity on the following operational/strategic matters? Specifically:

(i) **Europe: After two years since the group's acquisition of Navires Aviation Limited (now known as China Aviation Fuel (Europe) Limited ("CAFEU")), how has management's understanding of the European market evolved? Has the group realised the anticipated synergies and opportunities CAFEU was expected to bring?**

Response: The Company's acquisition of Navires Aviation Limited (now known as China Aviation Fuel (Europe) Limited) was an important step in the strategic expansion of the Group for the European market (the "**Acquisition**"). The Acquisition has made it possible for the Group to build up its jet fuel supply and marketing capabilities at major international airports in mainland Europe namely, Frankfurt am Main Airport, Amsterdam Airport Schiphol and Brussels Airport. It has paved the way for the Group to establish, grow and develop its presence in the mature European jet fuel markets.

The Group has made considerable efforts to realise the value of the Acquisition. In 2019, CAFEU successfully concluded its first arbitrage trading deal which involved the sale and delivery of jet fuel cargo from China to Europe--a milestone achievement for CAFEU's independent supply business in Europe.

CAFEU is increasingly seen as a major jet fuel trading partner and supplier in the European market -- a direct outcome of synergies derived from its globalisation efforts. CAFEU is seeing more new investment opportunities across the jet fuel supply chain that complements its existing European operations. The investment opportunities in Europe will continue to remain strategically important to the Group's growth globally. In the long run, CAFEU will play an important role for the Group to further explore growth and expansion opportunities in Europe.

(ii) **Xinyuan: Is the group still actively looking for a buyer for China Aviation Oil Xinyuan Petrochemicals Co., Ltd? What has caused the delay?**

Response: The Company has been actively looking for a buyer for its 39-percent equity stake in China Aviation Oil Xinyuan Petrochemicals Co., Ltd. (the "**Xinyuan Equity Stake**"). The proposed divestment of the Xinyuan Equity Stake had to be made by way of a listing-for-sale through China Beijing Equity Exchange, an approved equity exchange (the "**Listing-for-Sale**") in accordance with the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises of the People's Republic of China.

The proposed divestment of the Xinyuan Equity Stake did not materialise after three rounds of unsuccessful attempts in the Listing-for-Sale exercise undertaken by the Company during the past two years as there were no bids proffered by interested buyers. The Company will strive to divest the Xinyuan Equity Stake this year and ongoing arrangements are being made by the Company for the said divestment through the Listing-for-Sale exercise.

(iii) **Counterparty risks: It was reported in the media that the group took delivery from Zenrock for jet fuel in March 2020. Does the group have any exposure to Zenrock and Hin Leong?**

Response: According to recent media reports relating to the Singapore-based oil trader, Zenrock, CAO was named as one of the unsecured creditors of Zenrock based on information extracted as of February 2020 from the court documents. As a matter of fact, CAO has not entered into trading transactions with Zenrock since February 2020 and as such, does not have any material exposure to Zenrock. As at to date, CAO does not have any outstanding amount with Hin Leong.

(iv) **Low Sulphur Fuel Oil ("LSFO"): What are the group's efforts to pro-actively develop the LSFO market?**

Response: In line with global initiatives to reduce the environmental impact of shipping and related activities and to promote clean and green shipping, ongoing efforts have been made by the Company to develop a sustainable marine fuel business through exploring opportunities in the LSFO market, particularly in the marketing and supply of compliant LSFO.

The Group's efforts have been largely focused on: (i) identifying and securing sustainable LSFO supply sources as well as tapping into opportunities in the LFSO supply chains in Singapore and China; and (ii) exploring opportunities in the marine diesel oil ("MDO") demand market, and developing its MDO marketing and supply business.

Question 3:

(i) **Would the NC help shareholders understand if it had carried out its duties in identifying, evaluating and selecting suitable candidates for appointment as new independent director?**

Response: The Nominating Committee of the Company ("**NC**") had carried out its duties in identifying, evaluating, selecting and nominating of the then new independent director candidates, Mr Teo Ser Luck and Mr Hee Theng Fong, as potential candidates for appointment in accordance with the Company's Internal Guidelines for Selection and Appointment of Independent Directors (the "**Internal Guidelines**").

The NC had considered the evaluation criteria in the Internal Guidelines when assessing the suitability of Mr Teo Ser Luck and Mr Hee Theng Fong for appointment as Independent Directors in complementing the core competencies of the Board. The aforesaid evaluation criteria included:

(a) Appropriate background, experience, industry knowledge or ability to acquire that knowledge, professional skills and qualifications;
(b) Demonstrated and recognized knowledge, experience and competence in business including financial literacy;
(c) Ability to analyse information, think strategically, review and challenge management in order to make informed decisions and assess performance;
(d) Good communication skills and ability to work harmoniously with fellow directors and management;
(e) Willingness to devote the required time, including being available to attend meetings of the Board and Board Committees; and
(f) High levels of personal and professional integrity as well as business ethics.

(ii) **What was the role management played in the interview with the four potential candidates?**

Response: The Management did not play any role in the interview with the four potential candidates. The meetings with each of the four potential candidates were held over a meal and the Management was also invited to meet up with each of them to help gauge if these candidates possess the personality traits which could potentially reveal their ability to work with fellow members of the Board and Management cohesively as a team with respect and candour. The Management was not involved in the search and selection of any of the potential candidates.

(iii) **Given the terms of reference, should the NC be taking the lead in the search and nomination process, instead of the chairman of the board who is not a member of the NC, and is a non-independent director?**

Response: The Nominating Committee took the lead in the search and nomination process of the potential candidates for appointment as Independent Directors to fill the casual vacancies in the Board following the retirement of Dr Wang Kai Yuen and Mr Ang Swee Tian from the Board after the conclusion of the 2019 Annual General Meeting of the Company held in April 2019. Considering that the potential candidates for appointment as Independent Directors are to be ordinarily resident in Singapore, the meetings with these potential candidates had to be held during the same period when both the Chairman and the Vice Chairman of the Nominating Committee were in Singapore for the meetings of the Board and Board Committees held in February 2019. The Chairman of the Board was also invited to meet with each of the potential candidates to provide him with the opportunity to have a preliminary understanding of these potential candidates. The Chairman of the

Board did not participate in the selection and nomination process for the appointment of the potential candidates as Independent Directors of the Company.

The Nominating Committee had considered the relevant evaluation criteria in the Internal Guidelines when assessing the suitability of the shortlisted potential candidates in complementing the core competencies of the Board before submitting its recommendations to the Board for approval.

(iv) **Did the NC evaluate the ability of the newly appointed directors to commit their time and attention to the affairs of the group consider their other commitments? Mr Teo Ser Luck sits on six listed companies (including being the chairman, and deputy chairman of two of them) and is a Member of Parliament. Mr Hee Theng Fong is a consultant in a large law firm and sits on seven listed companies (including CAO). Mr Hee's other principal commitments include being the deputy chairman of Singapore Medishield Life Council and the chairman of Citizenship Committee of Inquiry (ICA).**

Response: The Nominating Committee had carefully considered and objectively evaluated the ability of the newly appointed Independent Directors, Mr Teo Ser Luck and Mr Hee Theng Fong, to commit their time and attention to the affairs of the Group.

Both directors have accumulated a lifetime of business experience enabling them to serve on multiple listed boards and lending their sage expertise to multiple organisations. They have also honed years of experience to properly assess if they are capable of committing their time and attention to the affairs of the Group. Their full attendances at all Board meetings and at the relevant meetings of the Board Committees on which they serve in the financial year 2019, are testament to their ability to commit their time and attention to the affairs of the Group. In addition, we wish to clarify that Mr Hee's appointments as the Deputy Chairman of Singapore Medishield Life Council and the Chairman of Citizenship Committee of Inquiry are not his principal commitments as these appointments do not require a significant time commitment on the part of Mr Hee.

(v) **Should Mr Hee be re-appointed at the annual general meeting, would Mr Hee be reviewing his other commitments to meet the company's guidelines on the maximum number of listed board representations?**

Response: The disclosure on page 199 of the Company's Annual Report listed the directorships of Mr Hee Theng Fong as of 1 April 2020. As announced by Tye Soon Limited on 28 May 2020, Mr Hee will be retiring as an Independent Director of Tye Soon Limited ("**Tye Soon**") at the 64th Annual General Meeting to be held in June 2020. As for APAC Realty Limited, Mr Hee was originally scheduled to step down from his appointment as an Independent Director of APAC Realty Limited ("**APAC**") in April 2020. However, due to the COVID-19 pandemic disruptions, Mr Hee resignation as an Independent Director of APAC is expected to take place in June 2020. Relevant announcements relating to Mr Hee's cessation as an Independent Director of both Tye Soon and APAC will be made by these respective companies in due course.

Taking into consideration the aforesaid, the Nominating Committee is of the view that Mr Hee Theng Fong should be re-appointed as an Independent Director at the 26th Annual General Meeting of the Company as his listed board representations (including his directorship in the Company) would not exceed the maximum number of 6.